

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

FAMILY INDEPENDENCE AGENCY

October 1, 1996 through September 30, 1998

EXECUTIVE DIGEST

FAMILY INDEPENDENCE AGENCY

INTRODUCTION

This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Family Independence Agency (FIA) for the period October 1, 1996 through September 30, 1998.

AUDIT PURPOSE

This financial audit of FIA was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

FIA's mission* is to help individuals and families meet financial, medical, and social needs; to assist people to become self-sufficient; and to help protect children and vulnerable adults from abuse, neglect, exploitation, and endangerment. To achieve this mission, FIA manages numerous State and federally funded programs that provide assistance and/or services to eligible recipients.

During our audit period, most of FIA staff were organized into five administrations, with the Family Independence Services and Child and Family Services Administrations having primary responsibility for establishing and

* See glossary at end of report for definition.

implementing most grant and service program policies. The Field Operations Administration has oversight responsibility for FIA local offices. The Administration for Budget, Analysis, and Financial Management (BAFM) is responsible for accounting and financial reporting, including the preparation and submission of federal program cost reports. BAFM also performs various budgetary, policy analysis, staffing and program evaluation, and quality control functions.

As of September 30, 1998, FIA had 12,648 employees. FIA's major funding sources are the State General Fund and the U.S. Departments of Health and Human Services and Agriculture. FIA expenditures and operating transfers out for fiscal year 1997-98 were \$3.3 billion.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To audit FIA's financial schedules, including the schedule of expenditures of federal awards, and its Children's Trust Fund financial statements for the fiscal years ended September 30, 1998 and September 30, 1997.

Conclusion: We expressed an unqualified opinion* on FIA's financial schedules and on its Children's Trust Fund financial statements. In addition, we expressed an unqualified opinion on FIA's schedule of expenditures of federal awards, and its other supplemental financial schedules, in relation to the financial schedules taken as a whole.

Audit Objective: To assess and report on FIA's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could

* See glossary at end of report for definition.

have a direct and material effect on the financial schedules and statements, and on its internal control* over financial reporting, based on our audit of the financial schedules and statements.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial statements and schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses* . However, we identified reportable conditions* related to personnel and payroll transactions and the adoption subsidy payment system (Findings 1 and 2).

In addition, our assessment indicated that FIA was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess and report on FIA's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

Conclusion: Our assessment of compliance applicable to each major program disclosed instances of noncompliance related to noncooperation penalties and financial penalties for noncompliance with federal guidelines and regulations that are required to be reported under OMB Circular A-133 (Findings 7 and 15). Also, our assessment of internal control over

* See glossary at end of report for definition.

compliance applicable to each major federal program identified four material weaknesses:

- FIA local offices often did not comply with established internal control for initiating client disqualification or, ultimately, case closure when a client failed to cooperate in obtaining child support (Finding 6).

FIA agrees with the related recommendation and will comply.

- FIA child support specialists often did not comply with established internal control regarding locating absent parents and following up referrals to the prosecutor (Finding 8).

FIA agrees with the related recommendation and will comply.

- FIA local office staff frequently did not comply with established case file internal control procedures for documenting client eligibility and the propriety of payments made to or on behalf of clients (Finding 14).

FIA agrees with the related recommendation and will comply.

- FIA should improve its screening and monitoring of child care aide and relative provider applicants and enrollees (Finding 17).

FIA agreed with the previously reported recommendation and informed us that it has complied. However, FIA disagrees with the

questioned costs* and inclusion of the finding in this report.

We also identified other reportable conditions related to fixed assets, cash management, supplanting of State funds, child support participation payments, discontinuance of adoption subsidy payments, Teen Parent Program cost allocation, documentation and allowability of federally funded expenditures, federal payroll certifications, adoption subsidy payment system, and deceased recipients (Findings 3 through 5, 9 through 13, 16, and 18).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Family Independence Agency for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP

Our audit report contains 15 findings (Findings 1 through 15) that have 16 corresponding recommendations. FIA's corrective action plan indicates that it agrees with 15 of the recommendations and disagrees with 1 recommendation. The plan also indicates that FIA has complied with 6 of the recommendations and plans to comply with the other 10. In addition, our report contains 2 findings (Findings 17 and 18) that refer to findings in other reports that have reported

* See glossary at end of report for definition.

questioned costs. FIA previously responded that it agreed with the corresponding recommendations and had complied with 1 and planned to comply with the other.

As disclosed in FIA's summary schedule of prior audit findings, FIA fully corrected 9 of the 17 prior Single Audit* findings and did not correct or partially corrected 8 of the audit findings.

* See glossary at end of report for definition.

October 25, 2000

Mr. Douglas E. Howard, Director
Family Independence Agency
and
Ms. Candace L. Sorensen, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mr. Howard and Ms. Sorensen:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Family Independence Agency for the period October 1, 1996 through September 30, 1998.

This report contains our executive digest; description of agency; audit objectives and conclusions, audit scope, and agency responses and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial schedules, on the financial statements, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Family Independence Agency financial schedules, the Children's Trust Fund financial statements, and notes to the financial schedules and financial statements; supplemental financial schedules; other required schedules; and a glossary of acronyms and terms.

Our findings and recommendations are organized by audit objective. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Agency

The Family Independence Agency (FIA) (formerly called the Department of Social Services) was created by the Executive Organization Act of 1965. The FIA director is appointed by the Governor with the advice and consent of the Senate.

FIA's mission is to help individuals and families meet financial, medical, and social needs; to assist people to become self-sufficient; and to help protect children and vulnerable adults from abuse, neglect, exploitation, and endangerment. To achieve this mission, FIA manages numerous State and federally funded programs that provide assistance and/or services to eligible recipients.

During our audit period, most of FIA staff were organized into five administrations: Family Independence Services; Child and Family Services; Budget, Analysis, and Financial Management (BAFM); Field Operations; and Information Technology Management Services. Family Independence Services and Child and Family Services administrations have primary responsibility for establishing and implementing most grant and service program policies. The Field Operations Administration has oversight responsibility for FIA local offices. BAFM is responsible for accounting and financial reporting, including the preparation and submission of federal program cost reports. BAFM also performs various budgetary, policy analysis, staffing and program evaluation, and quality control functions. Information Technology Management Services is responsible for software development, maintenance and operation of FIA's computer systems, and network administration.

As of September 30, 1998, FIA had 12,648 employees. FIA's major funding sources are the State General Fund and the U.S. Departments of Health and Human Services and Agriculture. FIA expenditures and operating transfers out for fiscal year 1997-98 were \$3.3 billion.

The Children's Trust Fund was created by Act 249, P.A. 1982 (Sections 21.171 and 21.172 of the *Michigan Compiled Laws*) to receive funds for the prevention of child abuse and neglect. The State Child Abuse and Neglect Prevention Board was created by Act 250, P.A. 1982 (Sections 722.601 - 722.613 of the *Michigan Compiled Laws*), to administer the Children's Trust Fund and to prevent child abuse and neglect.

The State Child Abuse and Neglect Prevention Board consists of 14 members. Ten members are appointed by the Governor. Other members include the Superintendent of Public Instruction and the directors of FIA, the Department of Community Health, and the Michigan Department of State Police, or their designees.

Audit Objectives and Conclusions, Audit Scope,
and Agency Responses and Prior Audit Follow-Up

Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Family Independence Agency (FIA) had the following objectives:

1. To audit FIA's financial schedules, including the schedule of expenditures of federal awards, and its Children's Trust Fund financial statements for the fiscal years ended September 30, 1998 and September 30, 1997.

Conclusion: We expressed an unqualified opinion on FIA's financial schedules and on its Children's Trust Fund financial statements. In addition, we expressed an unqualified opinion on FIA's schedule of expenditures of federal awards, and its other supplemental financial schedules, in relation to the financial schedules taken as a whole.

2. To assess and report on FIA's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules and statements, and on its internal control over financial reporting, based on our audit of the financial schedules and statements.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial statements and schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses. However, we identified reportable conditions related to personnel and payroll functions and the adoption subsidy payment system (Findings 1 and 2).

In addition, our assessment indicated that FIA was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

The findings related to our assessment of compliance and internal control over financial reporting are contained in Section II of the schedule of findings and questioned costs.

3. To assess and report on FIA's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

Conclusion: Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance related to noncooperation penalties and financial penalties for noncompliance with federal guidelines or regulations that are required to be reported under OMB Circular A-133 (Findings 7 and 15). Also, our assessment of internal control over compliance applicable to each major federal program identified four material weaknesses related to client disqualification, child support enforcement efforts, case file internal control, and the screening and monitoring of aides and relative care providers (Findings 6, 8, 14 and 17). We also identified other reportable conditions related to fixed assets, cash management, supplanting of State funds, child support participation payments, discontinuance of adoption subsidy payments, Teen Parent Program cost allocation, documentation and allowability of federally funded expenditures, federal payroll certifications, adoption subsidy payment system, and deceased recipients (Findings 3 through 5, 9 through 13, 16, and 18).

The findings related to our assessment of compliance and internal control over compliance applicable to each major federal program are contained in Section III of the schedule of findings and questioned costs.

Audit Scope

Our audit scope was to examine the financial and other records of the Family Independence Agency for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We considered FIA's internal control over compliance applicable to each major federal program and assessed FIA's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on FIA's summary schedule of prior audit findings. FIA's major programs are identified in Section I of the schedule of findings and questioned costs.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 15 findings (Findings 1 through 15) that have 16 corresponding recommendations. FIA's corrective action plan indicates that it agrees with 15 of the recommendations and disagrees with 1 recommendation. The plan also indicates that FIA has complied with 6 of the recommendations and plans to comply with the other 10. In addition, our report contains 2 findings (Findings 17 and 18) that refer to findings in other reports that have reported questioned costs. FIA previously responded that it agreed with the corresponding recommendations and had complied with 1 and planned to comply with the other.

FIA's corrective action plan, which is included in this report, was prepared by FIA as required by OMB Circular A-133. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require FIA to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

As disclosed in FIA's summary schedule of prior audit findings, FIA fully corrected 9 of the 17 prior Single Audit findings and did not correct or partially corrected 8 of the prior findings.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified that are not considered
to be material weaknesses? Yes

Noncompliance material to the financial schedules? No

Children's Trust Fund Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified that are not considered
to be material weaknesses? No

Noncompliance material to the financial statements? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? Yes

Reportable conditions identified that are not considered
to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs except Child Support Enforcement, Food Stamps, Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, and Temporary Assistance for Needy Families, which were qualified*.

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)? Yes

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.551 and 10.561	Food Stamp Cluster
81.042	Weatherization Assistance for Low-Income Persons
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
93.556	Family Preservation and Support Services
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.569	Community Services Block Grant
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.645	Child Welfare Services - State Grants
93.658	Foster Care - Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.777 and 93.778	Medicaid Cluster
96.001	Social Security - Disability Insurance

Dollar threshold used to distinguish between type A and type B programs: \$12,751,600

Auditee qualified as a low-risk auditee* ? No

* See glossary at end of report for definition.

Section II: Findings Related to the Financial Schedules and Statements

FINDING (439901)

1. Personnel and Payroll Transactions

The Family Independence Agency (FIA) did not comply with prescribed Personnel-Payroll Information System for Michigan (PPRISM) internal control procedures for preparing time and attendance reports. Also, FIA did not maintain effective internal control over the processing of personnel and payroll transactions.

Our review of FIA's timekeeping procedures disclosed:

- a. FIA's internal control did not ensure that biweekly time and attendance summaries (form A-684 prior to the implementation of the Data Collection and Distribution System* and form HR332A after implementation) were prepared by the timekeeper and certified in accordance with PPRISM procedures and FIA procedures.

PPRISM Procedures Manual section 7.3 and FIA Administrative Handbook item 633.3 state that only authorized persons may prepare and certify A-684s and HR332As.

Our analysis of 64 time and attendance summaries identified 11 (17%) summaries signed by unauthorized timekeepers and 14 (22%) summaries signed by an unauthorized certifier. We defined unauthorized timekeepers and certifiers as ones whose names did not appear on the DSS-1103 signature log for the timekeeping unit of the sampled employee.

We also identified 4 (6%) of 64 summaries in which the certifier or timekeeper signed the same time-and-attendance page on which his or her name was reported, with no compensating control documented. We accepted as a compensating control the signature of the alternate certifier or timekeeper on

* See glossary at end of report for definition

the line or page that the primary certifier's or timekeeper's time and attendance was recorded.

We noted similar findings in our four prior audits. In response, FIA concurred and initiated corrective action, including random reviews of A-684s for proper signatures. However, this corrective action was not effective.

- b. FIA PPRISM control persons did not maintain the required internal control for entering and reconciling personnel and payroll information. As a result, FIA faced greater risk of improper entries without detection.

We surveyed FIA's Central Office of Human Resources, the Wayne County FIA office, and 13 other local offices responsible for entering payroll and personnel data to identify data entry and reconciliation controls used at each location. Control personnel were entering data in violation of PPRISM procedures and were not always performing prescribed reconciliations of input transactions to source documents. The combination of these two conditions increased the risk of FIA not detecting improper PPRISM transactions:

(1) PPRISM Control Person Data Entry

We reviewed entry capabilities for all 25 control persons from the 15 locations to test whether they were complying with PPRISM procedures. For each control person, we reviewed the valid PPRISM operator identification list (CR-185) to determine the capabilities for each control person. Nineteen (76%) of 25 control persons had entry capabilities beyond what is allowed under PPRISM Procedures Manual section 2.3. In fiscal years 1997-98 and 1996-97, 18 control persons entered 9,532 and 12,446 transactions, respectively, that were not allowed, according to the PPRISM Procedures Manual. Eight of the 18 control persons entered a total of 29 transactions for themselves. We tested 5 of these 29 transactions and none resulted in an improper payment or benefit to an employee. PPRISM Procedures Manual section 2.3 allows the control person to enter only password changes and obtain the daily transaction report.

(2) PPRISM Daily Transaction Reconciliations

FIA did not properly reconcile the daily operator transaction log (A-816 or A-817) with the daily transaction report for 31 (48%) of 64 sampled days. In 10 (32%) of the 31 instances, the control totals for the daily transaction log did not agree with the daily transaction report. Also, the person who performed the reconciliation did not sign 21 (68%) of 31 daily transaction logs. In addition, FIA could not locate the daily transaction report for two additional sampled days. PPRISM Procedures Manual section 2.3 states that the control person is to perform a daily reconciliation of the daily operator transaction log (A-816 or A-817) with the daily transaction report.

RECOMMENDATIONS

- (a) WE AGAIN RECOMMEND THAT FIA COMPLY WITH PRESCRIBED PPRISM INTERNAL CONTROL PROCEDURES FOR PREPARING TIME AND ATTENDANCE REPORTS.
- (b) WE AGAIN RECOMMEND THAT FIA MAINTAIN EFFECTIVE INTERNAL CONTROL OVER THE PROCESSING OF PERSONNEL AND PAYROLL TRANSACTIONS.

FINDING (439902)

2. Adoption Subsidy Payment System

FIA's internal control did not help ensure that data entered into the adoption subsidy payment system was verified for accuracy and completeness.

FIA makes payments to adoptive parents to subsidize the cost of adoption and, in certain cases, the cost of care for "hard to place" children. FIA inputs eligibility and payment data into the adoption subsidy payment system. This system interfaces with the Michigan Administrative Information Network* (MAIN) which generates the adoption subsidy payroll.

* See glossary at end of report for definition.

As of September 1996, FIA no longer produced output reports to verify additions, changes, or deletions to the adoption subsidy payment system. Therefore, FIA personnel are not able to perform a reconciliation of adoption subsidy system input to output. As a result, there is an increased risk that erroneous or improper data could be entered into the adoption subsidy payment system without detection. Sound internal control procedures should provide for a reconciliation of data input to output.

Our review of 88 randomly selected adoption subsidy payments disclosed that 3 (3%) case files contained an adoption subsidy payroll notice (FIA-3755) that authorized an amount different from the actual amount paid on behalf of the child. Also, 1 (1%) of the FIA-3755's properly documented that State funds were to be used for the subsidy. However, the subsidy payment was improperly allocated to the federal Adoption Assistance grant as the data was inputted incorrectly. These errors resulted in questioned costs totaling \$521.

We reported a similar finding in our prior audit. In response, FIA stated that it agreed with the recommendation and would comply with it. We noted that no corrective action was initiated.

RECOMMENDATION

WE AGAIN RECOMMEND THAT FIA IMPLEMENT INTERNAL CONTROL TO HELP ENSURE THAT DATA ENTERED INTO THE ADOPTION SUBSIDY PAYMENT SYSTEM IS VERIFIED FOR ACCURACY AND COMPLETENESS.

The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING (439903)

3. Fixed Assets

U.S. Department of Health and Human Services	CFDA: 93.563 Child Support Enforcement
Award Number: G 97 04 MI 4004	Award Period: 10/1/1996 - 9/30/1997
	Questioned Costs: \$122,840

FIA did not identify, maintain property records for, and properly account for equipment acquired with Child Support Enforcement (CSE) Program funds for the Child Support Enforcement System (CSES) Data Center in accordance with State policy and federal regulations.

Title 45, Part 74, section 34 of the *Code of Federal Regulations (CFR)* and the State's General Fixed Assets Accounting Manual require recipients to maintain property records and a control system to ensure adequate safeguards to prevent loss, damage, or theft of equipment acquired with federal funds. Section C of the General Fixed Assets Accounting Manual (Equipment Capitalization Policies) requires that all individual pieces of equipment with an acquisition cost of \$5,000 or more be capitalized and recorded in a department's accounting records for inclusion in the *State of Michigan Comprehensive Annual Financial Report*. Capitalized items are to be identified by description, serial number, acquisition cost, and location. U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State and Local Governments*, defines capital equipment as an item having a useful life of more than a year and an acquisition cost equal to the lesser of the capitalization level established by the governmental unit for financial statement purposes or \$5,000.

We reviewed documentation for five CSES computer hardware equipment items purchased in fiscal year 1996-97 for a total of \$122,840. FIA did not record these items in its fixed asset accounting system and FIA staff could not identify and

provide us with the location of these items or whether the items were in operation or had been salvaged. As a result, we cited questioned costs of \$122,840.

Subsequently, FIA determined that equipment purchases during fiscal years 1996-97, 1997-98, and 1998-99, totaling \$754,000 for the CSES Data Center, through an interagency agreement with the Department of Management and Budget (DMB), had not been capitalized or recorded in FIA's fixed asset accounting system. As a result, fixed assets as reported in the State's general fixed assets account group were understated in the *State of Michigan Comprehensive Annual Financial Report* for fiscal years 1996-97, 1997-98, and 1998-99.

FIA informed us that it relied on DMB Office of Computing and Telecommunications personnel to request inventory tags for equipment items purchased for the CSES Data Center. The Office staff informed us that they only requested FIA inventory tags for central processing units, personal computers, monitors, and printers. However, these items usually cost less than \$5,000.

RECOMMENDATION

We recommend that FIA identify, maintain property records for, and properly account for equipment purchases in accordance with State policy and federal regulations.

FINDING (439904)

4. Cash Management

U.S. Department of Health and Human Services	CFDA: 93.558 Temporary Assistance for Needy Families
Award Number: G 97 01 MI TANF G 98 01 MI TANF	Award Period: 10/1/1996 - 9/30/1998 10/1/1997 - 9/30/1999
	Questioned Costs: \$0

FIA should claim expenditures eligible for reimbursement under the federal Temporary Assistance for Needy Families (TANF) program in a timely manner.

TANF regulations allow FIA flexibility in directly charging expenditures to the program or transferring TANF funds to supplement other programs, such as child care. Should FIA elect to use TANF program funds for other programs, any significant delay in obtaining TANF funds results in lost interest income as State resources are used in lieu of TANF funds.

Our review of FIA's cash management disclosed:

- a. FIA transferred \$77.5 million and \$38.1 million of eligible expenditures to TANF on November 19, 1998 and November 14, 1997, respectively, to supplement the State's child care program, which had expended all available federal Child Care and Development Fund (CCDF) funds. However, TANF funds were available on or before September 30 each year.

Based on the State Treasurer's Common Cash rate of return, we estimated that the State could have earned interest income of approximately \$587,000 for the period October 1, 1998 through November 19, 1998 and approximately \$266,000 for the period October 1, 1997 through November 14, 1997.

- b. FIA transferred \$51.7 million of eligible expenditures to TANF on November 14, 1997 to supplement various State programs funded with the Social Services Block Grant (SSBG), which had been expended. However, TANF funds were available on or before September 30, 1997.

Based on the State Treasurer's Common Cash rate of return, we estimated that the State could have earned interest income of approximately \$360,000 for the period October 1, 1997 to November 14, 1997.

- c. FIA transferred TANF grant authorization to the CCDF program in July 1998 and December 1997 and subsequently drew CCDF grant funds. However, TANF funds were available to transfer in January, February, March, April, and June 1998, and March, April, May, June, July, August, and September 1997, respectively.

Based on the State Treasurer's Common Cash rate of return, we estimated that the State could have earned interest income of approximately \$755,000

and \$228,000 in fiscal years 1997-98 and 1996-97, respectively, had the transfers been made on a timely basis. FIA identified and reported delayed draws from January 1998 to July 1998 and from March 1997 to June 1997 to the Michigan Department of Treasury for inclusion in the State's Cash Management Improvement Act Annual Report. However, FIA did not report delayed draws from July 1997 to December 1997 to the Michigan Department of Treasury for inclusion in the Annual Report.

- d. FIA transferred TANF grant authorization to the SSBG program in December 1997 and drew SSBG grant funds for fiscal year 1996-97 expenditures. However, TANF federal funds were available to transfer in May, June, July, August, and September 1997.

Based on the State Treasurer's Common Cash rate of return, we estimated that the State could have earned approximately \$255,000 for the period October 1, 1997 through December 4, 1997.

We recognize that the flexibility to transfer TANF grant funds was new during the audit period and that FIA must gain experience in managing these funds. However, the examples noted illustrate the importance of maximizing the use of TANF grant funds on a timely basis.

RECOMMENDATION

We recommend that FIA claim expenditures eligible for reimbursement under the federal TANF program in a timely manner.

FINDING (439905)

5. Supplanting of State Funds

U.S. Department of Health and Human Services	CFDA: 93.556 Family Preservation and Support Services
Award Number: G 97 01 MI 00FP	Award Period: 10/1/1996 - 9/30/1998
	Questioned Costs: \$150,000

FIA did not always comply with federal regulations that prohibit the supplanting of State funds with federal funds.

In fiscal year 1996-97, FIA incorrectly used \$150,000 charged to the federal Family Preservation and Support Services grant as State matching funds for another federal program.

Federal regulation 45 *CFR* 92.24(b) prohibits funds from one federal grant being used to supplant State funds required to match another federal grant.

RECOMMENDATION

We recommend that FIA comply with federal regulations that prohibit the supplanting of State funds with federal funds.

FINDING (439906)

6. Client Disqualification

U.S. Department of Health and Human Services	<i>CFDA</i> : 93.558 Temporary Assistance for Needy Families
Award Number: G 97 01 MI TANF G 98 01 MI TANF	Award Period: 10/1/1996 - 9/30/1998 10/1/1997 - 9/30/1999
	Questioned Costs: \$0

FIA local offices often did not comply with established internal control for initiating client disqualification or, ultimately, case closure when a client failed to cooperate in obtaining child support. We noted noncompliance in 14 (54%) of 26 cases reviewed. We consider this condition to be a material internal control weakness for the TANF program.

FIA's Program Eligibility Manual item 255 requires the child support specialist to notify the family independence specialist (FIS) when a client fails to cooperate in child support activities or does not indicate a willingness to cooperate. The FIS must then initiate "disqualification" for the client. If the client remains disqualified

for four consecutive months and still refuses to cooperate, the FIS must close the Family Independence Program (FIP) case.

We selected 26 active FIP cases with disqualified clients from CSES. Our review of these cases disclosed:

- a. For 2 (8%) cases, the FIP file did not contain documents required to verify that the FIS initiated client disqualification when the client failed to cooperate in obtaining child support.
- b. For 7 (27%) cases, the FIS did not initiate client disqualification, which would reduce the FIP grant by removing the client from the FIP family group.
- c. For 3 (12%) cases, the FIS did not initiate client disqualification on a timely basis. FIA's Program Administrative Manual (PAM) section 220 requires an FIS to act on client status changes within 15 business days. After being notified of the change, the FIS initiated client disqualification between 17 to 122 business days late.
- d. For 1 (4%) case, the FIS did not reinstate a client previously disqualified within 15 business days, as required by section 220 of PAM. After being notified of the change, the FIS reinstated the client 33 business days late.
- e. For 1 (4%) case, the FIS did not initiate case closure in a timely manner. After being notified of the closure, the FIS closed the FIP case 144 business days late.

The Social Security Act permits the Secretary of the U.S. Department of Health and Human Services (HHS) to penalize a state up to 5% of its TANF grant for failing to substantially comply with state child support program requirements. The State's TANF grant was approximately \$775.7 million for fiscal year 1997-98.

RECOMMENDATION

We recommend that FIA local offices comply with established internal control for initiating client disqualification or, ultimately, case closure when a client fails to cooperate in obtaining child support.

FINDING (439907)

7. Noncooperation Penalties

U.S. Department of Health and Human Services	CFDA: 93.558 Temporary Assistance for Needy Families
Award Number: G 97 01 MI TANF	Award Period: 10/1/1996 - 9/30/1998
	Questioned Costs: \$65

FIA has not revised its child support noncooperation penalties to comply with federal welfare reform requirements. We consider this exception to be material noncompliance with regard to the TANF Program.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-93) amended the Social Security Act by establishing the TANF Program. The Social Security Act states that if an individual is not cooperating with the State in obtaining child support, the State shall deduct from the family's assistance an amount not less than 25%.

The FIP Monthly Assistance Payments Standards Table contained in Program Reference Manual item 210-1 often contained client disqualification reductions that did not meet the required 25% minimum reduction. We determined that 32 (89%) of 36 sanctions pertaining to FIA's six shelter areas were improper, with the average client disqualification ranging from \$1.62 more to \$139.75 less per sanction as shown in the following table:

Group Size Prior to Sanction	Average Payment Among All Shelter Areas	Child Support Sanction		Average Client Disqualification More or (Less) Than Federally Required
		Average Client Disqualification Among All Shelter Areas	Required 25% Reduction for an Average Payment	
Two	\$366.83	\$ 93.33	\$ 91.71	\$ 1.62
Three	\$454.00	\$ 87.17	\$113.50	(\$ 26.33)
Four	\$558.00	\$104.00	\$139.50	(\$ 35.50)
Five	\$654.00	\$ 96.00	\$163.50	(\$ 67.50)
Six	\$787.00	\$133.00	\$196.75	(\$ 63.75)
Seven	\$863.00	\$ 76.00	\$215.75	(\$ 139.75)

Our review of 56 FIP cases disclosed one instance in which FIA was required to disqualify a client for noncooperation. However, based on the table in Program Reference Manual item 210-1, the grant reduction imposed was \$65 less than the federally mandated reduction. Also, FIA informed us that for the period July 1, 1997 through September 30, 1998, 5,856 clients were disqualified and sanctioned for child support noncooperation.

The Social Security Act permits the secretary of HHS to penalize a state up to 5% of its TANF grant for failing to substantially comply with State child support program requirements. The State's TANF grant was approximately \$775.7 million for fiscal year 1997-98.

RECOMMENDATION

We recommend that FIA revise its child support noncooperation penalties to comply with federal welfare reform requirements.

FINDING (439908)

8. Child Support Enforcement (CSE) Efforts

U.S. Department of Health and Human Services	CFDA: 93.563 Child Support Enforcement
Award Number: G 97 04 MI 4004 G 98 04 MI 4004	Award Period: 10/1/1996 - 9/30/1997 10/1/1997 - 9/30/1998
	Questioned Costs: \$0

FIA child support specialists often did not comply with established internal control regarding locating absent parents and following up referrals to the prosecutor. We consider this condition to be a material internal control weakness for the CSE Program.

Our test of 54 CSE sampled case files disclosed:

- a. Child support specialists did not comply with established internal controls for 23 (77%) of 30 CSE cases that required some aspect of location services for

support action during our audit period in accordance with federal regulations 45 *CFR* 303.2(b) and 303.3 and FIA Office of Child Support (OCS) policy item 410. We noted:

- (1) For 5 (19%) of 27 cases, child support specialists did not initiate any required location services.

Federal regulation 45 *CFR* 303.2(b) and OCS policy item 410 require FIA to initiate attempts within 20 days of a request to locate the absent parent when location is necessary for paternity establishment and child and/or spousal support action.

- (2) For 4 (20%) of 20 cases, child support specialists did not use all appropriate location resources within the 75 calendar day requirement.

Federal regulations 45 *CFR* 303.3(b)(1) and 303.3(b)(3) and OCS policy item 410 require FIA to use all appropriate location sources within 75 days of determining that location of the absent parent is necessary and ensures that location information is sufficient to initiate support action. To help ensure that child support specialists comply with federal regulations, OCS policy item 410 lists over 30 appropriate local sources, such as utility companies, telephone services, and credit bureaus. Also, OCS policy items 420 through 450 require the child support specialist to use State and federal automated parent locating services that match State and federal agency database information, such as employment security and income tax files, to absent parent information.

In our sampled cases, the child support specialist typically sent an address information request form to the U.S. Postal Service, but did not always consider other locating sources if the request came back without a current address.

- (3) For 7 (70%) of 10 cases, child support specialists did not attempt to locate the absent parent on a quarterly basis after previous location attempts failed.

Federal regulation 45 *CFR* 303.3(b)(5) and OCS policy item 410 require that FIA initiate quarterly attempts using, at a minimum, automated State parent locating resources.

- (4) For 4 (67%) of 6 cases, child support specialists did not annually attempt to locate the absent parent using the Federal Parent Locator Service.

To help ensure that the child support specialist continues location efforts using a variety of location sources, OCS policy item 410 requires the use of the service on an annual basis, when previous location attempts failed.

- (5) For 3 (50%) of 6 cases, child support specialists did not repeat location attempts upon the receipt of new information.

Federal regulation 45 *CFR* 303.3(b)(5) and OCS policy item 410 require that FIA repeat location attempts upon receipt of new information that may aid in locating the absent parent.

Locating the absent parent is a fundamental CSE objective and is essential to obtaining financial support for the child and reducing State and federal welfare costs. Without locating an absent parent, paternity of the child cannot be established and support obligations cannot be secured.

- b. Child support specialists did not make a diligent effort to establish an order of support obligation for CSE clients as required by federal regulations and OCS policy for 4 of 12 (33%) cases that required this action.

Federal regulations 45 *CFR* 303.3(c), 303.4(d), and 303.4(e) require FIA to make (and establish guidance for) diligent efforts to establish an order for support obligation or complete service of process necessary to commence proceedings to establish a support order for all CSE cases. Federal regulation 45 *CFR* 303.3(c) defines diligent effort as determining the reason for and periodically resubmitting the referral to the local prosecutor for previous referral attempts that were dismissed by the court or local prosecutor. To help ensure FIA's compliance with federal regulations, OCS policy item 200 requires the child support specialist to monitor the status of a

support order referral submitted to the local prosecutor within specified time frames and to inform the local prosecutor of newly obtained information that may affect action on a referral.

Diligent monitoring of support order referrals helps to ensure that support obligation is promptly established. Without a court order for support obligation, the custodial parent cannot receive financial assistance for the child from the absent parent and the State cannot recover public assistance provided to the custodial parent for the child.

We reported this condition in our prior audit. FIA responded that it implemented a more current information database that would provide the child support specialists with the tools necessary to comply with federal regulations and OCS policy. FIA also periodically samples cases to determine compliance with procedures; however, these controls have not proven effective.

RECOMMENDATION

WE AGAIN RECOMMEND THAT FIA CHILD SUPPORT SPECIALISTS COMPLY WITH ESTABLISHED INTERNAL CONTROL REGARDING LOCATING ABSENT PARENTS AND FOLLOWING UP REFERRALS TO THE PROSECUTOR.

FINDING (439909)

9. Child Support Participation Payments

U.S. Department of Health and Human Services	CFDA: 93.558 Temporary Assistance for Needy Families
Award Number: G 97 01 MI TANF	Award Period: 10/1/1996 - 9/30/1998
	Questioned Costs: \$5,016,286
G 98 01 MI TANF	Award Period: 10/1/1997 - 9/30/1999
	Questioned Costs: \$4,407,496

FIA inappropriately charged State child support "participation payments" made to custodial parents to the TANF grant.

FIA distributes a portion (up to \$50 each month) of the State's share of child support collections received from a noncustodial parent as a participation payment to the custodial parent. Federal law 42 USC 657(a)(1)(B) states that a State may retain or distribute to the family the State's share of the child support amount collected. Federal reimbursement for such participation payments may not be claimed against the TANF grant. In fiscal years 1997-98 and 1996-97, FIA charged approximately \$4.4 million and \$5.0 million, respectively, to the TANF grant.

RECOMMENDATION

We recommend that FIA discontinue charging State child support participation payments to the TANF grant.

FINDING (439910)

10. Discontinuance of Adoption Subsidy Payments

U.S. Department of Health and Human Services	CFDA: 93.659 Adoption Assistance
Award Number: G 97 01 MI 1407	Award Period: 10/1/1996 - 9/30/1997
	Questioned Costs: \$11,750
Award Number: G 98 01 MI 1407	Award Period: 10/1/1997 - 9/30/1998
	Questioned Costs: \$19,807

FIA sometimes did not discontinue adoption subsidy payments to parents who failed to submit a required annual report to the Adoption Subsidy Unit.

The Adoption Assistance and Child Welfare Act of 1980 (Public Law 96-272, Section 473, item (3)) and Section 400.115i of the *Michigan Compiled Laws* require adoptive parents receiving a subsidy to file a verified annual report with the Adoption Subsidy Unit at least once each year. This report reflects the location of the adoptee and other matters relating to continued eligibility of the adoptee to receive a subsidy. An adoptive parent's failure to submit the annual report is to result in case closure.

Our review of 88 adoption subsidy payments disclosed that 3 (3%) case files did not contain an annual report dated within 1 year of the payment sampled. FIA did not close these 3 cases as required.

Also, 1 of the 3 cases was a subsidy payment for a child placed outside the United States. FIA did not request and, therefore, did not receive annual reports from out-of-country adoptive parents. As of September 30, 1998, there were 12 out-of-country adoptive placements.

RECOMMENDATION

We recommend that FIA discontinue adoption subsidy payments to parents who fail to submit a required annual report to the Adoption Subsidy Unit.

FINDING (439911)

11. Teen Parent Program Cost Allocation

U.S. Department of Health and Human Services	CFDA: 93.667 Social Services Block Grant
Award Number: G 98 01 MI SOSR	Award Period: 10/1/1997 - 9/30/1999
	Questioned Costs: (\$38,606)

U.S. Department of Health and Human Services	CFDA: 93.558 Temporary Assistance for Needy Families
Award Number: G 97 01 MI TANF	Award Period: 10/1/1996 - 9/30/1998
	Questioned Costs: \$38,606

FIA allocated an ineligible portion of Teen Parent Program costs to the TANF grant in fiscal year 1997-98.

FIA determined that 83.1% of Teen Parent Program participants were eligible for TANF funding in fiscal year 1997-98. However, FIA allocated 85% of Program costs to the TANF grant.

RECOMMENDATION

We recommend FIA allocate only eligible Teen Parent Program costs to the TANF grant.

FINDING (439912)

12. Documentation and Allowability of Federally Funded Expenditures

U.S. Department of Health and Human Services	CFDA: 93.556 Family Preservation and Support Services
Award Number: G 97 01 MI 00FP	Award Period: 10/1/1996 - 9/30/1998
	Questioned Costs: \$50,614

U.S. Department of Health and Human Services	CFDA: 93.563 Child Support Enforcement
Award Number: G 98 04 MI 4004	Award Period: 10/1/1997 - 9/30/1998
	Questioned Costs: \$22,199

U.S. Department of Health and Human Services	CFDA: 93.658 Foster Care-Title IV-E
Award Number: G 98 01 MI 1401	Award Period: 10/1/1997 - 9/30/1998
	Questioned Costs: \$19,899

FIA did not maintain required supporting documentation for certain federally reimbursed expenditures and charged unallowable costs to federal grants.

Federal regulation 45 *CFR* 92.20(b)(2) requires grantees and subgrantees to maintain records that identify the application of funds provided for financially assisted activities. Also, OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires costs charged to federal programs to be adequately documented. In addition, Section 18.1285 of the *Michigan Compiled Laws* requires FIA to maintain records to support State activities.

Our review of federal claims disclosed:

- a. FIA did not obtain documentation from providers to support advance payments made with federal Family Preservation and Support Service funds. FIA paid \$50,614 in advance payments to social service organizations in September 1997. As support, FIA provided us with 19 memoranda of understanding between a local FIA office and several providers identifying the amount advanced to the provider and the type of good or service to be provided. The local FIA office did not require the providers to submit documentation supporting the use of the federal funds once the provider spent the advance. As a result, FIA could not verify that the providers used the advance payments for family preservation and family support services.
- b. FIA improperly charged the CSE Program for the following CSES-related Program expenditures totaling \$22,199, incurred by DMB through an interagency agreement:
 - (1) An unauthorized consulting services payment totaling \$1,207 in fiscal year 1997-98.
 - (2) DMB billed and FIA paid the same \$10,451 invoice three times in fiscal year 1997-98. FIA paid DMB the two unsubstantiated billings which totaled \$20,902. DMB did not overpay the vendor who provided the actual service.
 - (3) FIA could not provide documentation for payments totaling \$90 in fiscal year 1997-98 for telecommunications services.
- c. FIA improperly charged the Foster Care Title IV-E Program for unallowable Foster Care Review Board Program expenditures billed by the State Court Administrative Office (SCAO). The SCAO overbilled FIA \$19,899 of Review Board expenditures in fiscal year 1997-98.

RECOMMENDATION

We recommend that FIA maintain required supporting documentation for federally funded expenditures and charge only allowable costs to federal grants.

FINDING (439913)

13. Federal Payroll Certifications

U.S. Department of Health and Human Services	CFDA: 93.563 Child Support Enforcement
Award Number: G 97 04 MI 4004	Award Period: 10/1/1996 - 9/30/1997
	Questioned Costs: \$40,346

FIA did not complete federally required payroll documentation for employees charged to the CSE Program.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, states that payroll costs are allowable to the extent that they satisfy specific documentation requirements. OMB Circular A-87 requires periodic certifications for employees who are expected to work solely on a single federal award to support their salary and wages for the period covered by the certification. These certifications are to be prepared at least semiannually and to be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. In certain circumstances, time and attendance documents may replace semiannual certifications.

For employees working on multiple activities, OMB Circular A-87 requires that a distribution of salaries and wages be supported by personnel activity reports or equivalent documentation. This documentation must be prepared at least monthly and signed by the employee. In addition, payroll charges based on budgets must be subsequently compared to actual results at least quarterly.

Our review of payroll certifications disclosed:

- a. FIA did not obtain from DMB semiannual certifications for DMB employees that worked solely on the CSE Program.
- b. Salaries and wages totaling \$40,346 for two employees working on multiple activities were based on budgeted amounts and were not supported by personnel activity reports or equivalent documentation. FIA did not obtain

budget to actual comparisons from DMB for these employees to verify charges to the CSE Program.

FIA personnel informed us that they were unaware of the requirements.

RECOMMENDATION

We recommend FIA complete federally required payroll documentation for employees charged to the CSE Program.

FINDING (439914)

14. Case File Internal Control

U.S. Department of Health and Human Services	CFDA: 93.568 Low-Income Home Energy Assistance Program
Award Number: G 97 B1 MI LIEA	Award Period: 10/1/1996 - 9/30/1998
	Questioned Costs: \$2,298

U.S. Department of Health and Human Services	CFDA: 93.658 Foster Care-Title IV-E
Award Number: G 98 01 MI 1401 G 97 01 MI 1401	Award Period: 10/1/1997 - 9/30/1998 10/1/1996 - 9/30/1997
	Questioned Costs: \$8,879

U.S. Department of Health and Human Services	CFDA: 93.667 Social Services Block Grant
Award Number: G 97 01 MI SOSR	Award Period: 10/1/1996 - 9/30/1998
	Questioned Costs: \$1,382
	Questioned Costs: \$1,120 from Finding 6 of our concurrent performance and financial related audit of the Child Development and Care Program

U.S. Department of Health and Human Services	CFDA: 93.558 Temporary Assistance for Needy Families
Award Number: G 97 01 MI TANF	Award Period: 10/01/1996 - 9/30/1998
	Questioned Costs: \$5,827
Award Number: G 98 01 MI TANF	Award Period: 10/1/1997 - 9/30/1999
	Questioned Costs: (\$902)

U.S. Department of Health and Human Services	CFDA: 93.575 Child Care and Development Block Grant
Award Number: G 96 B1 MI CARE	Award Period: 10/01/1996 - 9/30/1999
	Questioned Costs: \$685 from Finding 6 of our concurrent performance and financial related audit of the Child Development and Care Program

U.S. Department of Health and Human Services	CFDA: 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 97 01 MI CCDF	Award Period: 10/1/1996 - 9/30/1998
	Questioned Costs: \$286 from Finding 6 of our concurrent performance and financial related audit of the Child Development and Care Program
Award Number: G 98 01 MI CCDF	Award Period: 10/1/1997 - 9/30/1999
	Questioned Costs: \$900 from Finding 6 of our concurrent performance and financial related audit of the Child Development and Care Program

U.S. Department of Health and Human Services	CFDA: 93.778 Medical Assistance Program
Award Number: 05 97 05 MI 5048	Award Period: 10/1/1996 - 9/30/1997
	Questioned Costs: \$85,353 from Finding 8 of our concurrent performance audit of Home Health Care

FIA local office staff frequently did not comply with established case file internal control procedures for documenting client eligibility and the propriety of payments

made to or on behalf of clients. The noncompliance often resulted in FIA paying and not detecting inaccurate or inappropriate payments.

Our review of 206 randomly selected case files disclosed:

- a. Five (2%) of the 206 nonchild care grant or service case files could not be located. As a result, we questioned costs in all five cases.
- b. Twelve (6%) of the 206 nonchild care grant or service case files did not contain key documents required to support payments to or on behalf of the clients. As a result, we questioned costs relating to 4 cases. For the remaining 8 cases, other case file documentation corroborated information that would have been reported on the key documents needed to substantiate the propriety of payments made.
- c. Documentation relating to initial eligibility determination or redetermination was not complete for 9 (8%) of 117 cases.

An assistance application/redetermination form (FIA-1171), initial or redetermination of appropriate foster care funding source form (FIA-352, FIA-350), eligibility determination record (FIA-4418), or rehabilitation services eligibility certification was required for 117 of our sample grant cases. Documentation for 8 of the 117 cases was not complete, e.g., the eligibility determination was not documented or the caseworker did not sign and date the form. In addition, 1 of the 117 cases did not contain the required FIA-4418 to document continued eligibility. We cited questioned costs for 4 cases. For the remaining 5 cases, other case file documentation and information from FIA's quality control unit corroborated the client's eligibility.

- d. Local office staff did not adhere to FIA policies and/or properly determine grant benefits for 12 (6%) of the 206 case files we sampled. We cited questioned costs for 11 cases. In the remaining case, the client remained eligible for benefits.

In addition, the preceding questioned costs include questioned costs associated with Finding 6 from our concurrent performance and financial related audit of the

Child Development and Care Program (report 43-300-98), issued in January 2000, and Finding 8 of our performance audit of Home Health Care (report 39-700-98), issued in December 1999. These audits also disclosed various case file internal control and documentation exceptions. These reports are available upon request or from our web site at <http://www.state.mi.us/audgen/>. We consider the condition of Finding 6 of the Child Development and Care Program report to be a material internal control weakness for the Child Care and Development Block Grant and the Child Care Mandatory and Matching Funds of the Child Care and Development Fund Programs.

RECOMMENDATION

We recommend that FIA review and evaluate appropriate methods to help ensure that local office staff comply with established case file internal control procedures for documenting client eligibility and the propriety of payments made to or on behalf of clients.

FINDING (439915)

15. Financial Penalties for Noncompliance With Federal Guidelines and Regulations

U.S. Department of Health and Human Services	CFDA: 93.563 Child Support Enforcement
Award Number: G 97 04 MI 4004 G 98 04 MI 4004	Award Period: 10/1/1996 - 9/30/1997 10/1/1997 - 9/30/1998
	Questioned Costs: \$0

U.S. Department of Agriculture	CFDA: 10.551 Food Stamps
Award Number: LOC 42646 97 LOC 42646 98	Award Period: 10/1/1996 - 9/30/1998 10/1/1997 - 9/30/1999
	Questioned Costs: \$0

FIA's Food Stamps Program and the CSE Program often did not comply with federal guidelines and regulations, resulting in federal sanctions.

- a. FIA's Office of Quality Control and Special Projects determined that distributions of federal Food Stamps Program benefits to clients exceeded the federal tolerable error rate for both fiscal years 1997-98 and 1996-97. FIA's total payment error rates of 17.67% and 11.89% in fiscal years 1997-98 and 1996-97, respectively, exceeded the respective federal tolerable error rates of 10.69% and 9.88%. Errors occur when FIA distributes more or less Food Stamps Program benefits than what a client is eligible to receive.

Federal regulation 7 *CFR* 275.23 establishes a state's liability to the federal government for exceeding the federal tolerable error rate. Accordingly, the U.S. Department of Agriculture sanctioned FIA \$15.8 million and \$2.8 million for fiscal years 1997-98 and 1996-97, respectively. FIA entered into two settlement agreements with the Department whereby the liability would be waived pending a decrease in future error rates and a reinvestment of State funds into the Food Stamps Program of approximately \$7.9 million and \$0.2 million for fiscal years 1997-98 and 1996-97, respectively.

- b. OCS did not ensure that the State had a Statewide computerized child support enforcement system operating on and after October 1, 1997, as required by Title 42, Section 654.24 of the *Code of Laws of the United States*. As a result, HHS penalized the State \$4.3 million in fiscal year 1997-98 for not complying with the system requirement.

Federal law 42 *USC* 654.24 requires the State plan for child support to provide that the State will have in effect an automated data processing and information retrieval system by October 1, 1997. OCS is the agency in Michigan responsible for assuring that the State plan is continuously in operation and adhered to by all appropriate child support offices and agencies.

The State's CSE Program operates through the cooperative efforts of three agencies: OCS, county prosecuting attorneys' offices, and county friend of the court offices. OCS developed CSES to establish a uniform collection and

information system used by these three agencies. CSES must control, account for, and monitor all the factors in the child support collection and paternity determination processes under the State plan. As of October 1, 1997, CSES was operational in 63 (76%) of Michigan's 83 counties.

Federal law 42 USC 655(a)(4)(B)(i) mandates that an incremental penalty be imposed on states that fail to execute the system requirement. The annual penalty amount is calculated by applying an incremental penalty percentage to the amount of federal financial participation (FFP) the State received for child support enforcement expenditures. For example, the penalty imposed on FIA for fiscal year 1997-98 was based on 4% of total FFP received in fiscal year 1997-98. FIA informed us that the federal penalty for fiscal year 1998-99 will be \$8.4 million. Subsequent penalties could be 16% of total FFP received in fiscal year 1999-2000 and 25% in fiscal year 2000-01.

We considered the effect of the exceptions reported above as material noncompliance with regard to the Food Stamps Program and the Child Support Enforcement Program, as noted in our Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.

RECOMMENDATION

We recommend that FIA comply with the Food Stamps Program's and the CSE Program's federal guidelines and regulations to eliminate federal sanctions.

FINDING (439916)

16. Adoption Subsidy Payment System

U.S. Department of Health and Human Services	CFDA: 93.659 Adoption Assistance
Award Number: G 97 01 MI 1407	Award Period: 10/1/1996 - 9/30/1997
	Questioned Costs: \$521

This finding is included in Section II of the schedule of findings and questioned costs (439902).

The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

FINDING (439917)

17. Screening and Monitoring of Aides and Relative Care Providers

U.S. Department of Health and Human Services	CFDA: 93.667 Social Services Block Grant
Award Number: G 97 01 MI SOSR	Award Period: 10/1/1996 - 9/30/1998
	Questioned costs: \$42,408
Award Number: G 98 01 MI SOSR	Award Period: 10/1/1997 - 9/30/1999
	Questioned Costs: \$57,856

U.S. Department of Health and Human Services	CFDA: 93.575 Child Care and Development Block Grant
Award Number: G 96 B1 MI CARE	Award Period: 10/1/1996 - 9/30/1999
	Questioned Costs: \$402,879

U.S. Department of Health and Human Services	CFDA: 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 97 01 MI CCDF	Award Period: 10/1/1996 - 9/30/1998
	Questioned Costs: \$738,646
Award Number: G 98 01 MI CCDF	Award Period: 10/1/1997 - 9/30/1999
	Questioned Costs: \$1,831,292

U.S. Department of Health and Human Services	CFDA: 93.658 Foster Care - Title IV-E
Award Number: G 98 01 MI 1401	Award Period: 10/1/1997 - 9/30/1998
	Questioned Costs: \$13,424

U.S. Department of Agriculture	CFDA: 10.561 State Administrative Matching Grants for Food Stamp Program
Award Number: LOC 42646 98	Award Period: 10/1/1997 - 9/30/1999
	Questioned Costs: \$3,259
Award Number: LOC 42646 97	Award Period: 10/1/1996 - 9/30/1998
	Questioned Costs: \$7,440

The preceding questioned costs are associated with Finding 1 of our concurrent performance and financial related audit of the Child Development and Care Program, issued in January 2000. FIA should improve its screening and monitoring of child care aide and relative provider applicants and enrollees. FIA often did not verify that applicants were not on the Central Registry* before they were enrolled or periodically check the status of enrollees to determine if they had been added to the Registry. We consider this condition to be a material internal control weakness for the Child Care and Development Block Grant and the Child Care Mandatory and Matching Funds of the Child Care and Development Fund Programs. The report (43-300-98) is available upon request or from our web site at <http://www.state.mi.us/audgen/>.

FINDING (439918)

18. Deceased Recipients

U.S. Department of Agriculture	CFDA: 10.551 Food Stamps
Award Number: LOC 42646 98	Award Period: 10/1/1997 - 9/30/1999
	Questioned Costs: \$4,645
Award Number: LOC 42646 97	Award Period: 10/1/1996 - 9/30/1998
	Questioned Costs: \$4,278

* See glossary at end of report for definition

U.S. Department of Health and Human Services	CFDA: 93.778 Medical Assistance Program
Award Number: 05 97 05 MI 5048	Award Period: 10/1/1996 - 9/30/1997
	Questioned Costs: \$8,708

The preceding questioned costs are associated with Finding 7 of our concurrent performance and financial related audit of Information Technology Management Services, issued in August 1999. FIA had not periodically matched its Client Information System recipient records with Department of Community Health death records to prevent the issuance of benefits to deceased recipients. The report (43-591-98) is available upon request or from our web site at <http://www.state.mi.us/audgen/>.

Independent Auditor's Report on
the Financial Schedules

October 22, 1999

Mr. Douglas E. Howard, Director
Family Independence Agency
Grand Tower
Lansing, Michigan

Dear Mr. Howard:

We have audited the accompanying schedule of General Fund revenue and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Family Independence Agency for the fiscal years ended September 30, 1998 and September 30, 1997. These financial schedules are the responsibility of the Family Independence Agency's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Family Independence Agency are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Family Independence Agency's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to

constitute a complete financial presentation of either the Family Independence Agency or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and operating transfers and the sources and disposition of authorizations of the Family Independence Agency for the fiscal years ended September 30, 1998 and September 30, 1997, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 22, 1999 on our tests of the Family Independence Agency's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting.

The accompanying schedule of expenditures of federal awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The General Fund portion of the schedule of expenditures of federal awards and other supplemental financial schedules, consisting of the schedule of certain General Fund assets and liabilities and the schedule of disposition of General Fund authorizations by appropriation unit are presented for purposes of additional analysis and are not a required part of the Family Independence Agency's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on
the Financial Statements

October 22, 1999

Mr. Douglas E. Howard, Director
Family Independence Agency
and
Ms. Candace L. Sorensen, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mr. Howard and Ms. Sorensen:

We have audited the accompanying balance sheet of the Children's Trust Fund, Family Independence Agency, as of September 30, 1998 and September 30, 1997 and the related statement of revenues, expenditures, and changes in fund balance and the statements of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal years then ended. These financial statements are the responsibility of the State Child Abuse and Neglect Prevention Board management and the Family Independence Agency management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial statements present only the Children's Trust Fund and are not intended to present fairly the financial position and results of operations of the State of Michigan or its special revenue funds.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Children's Trust Fund as of September 30, 1998 and September 30, 1997 and the results of its operations for the fiscal years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 22, 1999 on our tests of the Family Independence Agency's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting.

The accompanying schedule of expenditures of federal awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Children's Trust Fund portion of the schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the Family Independence Agency's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on Compliance and
on Internal Control Over Financial Reporting

October 22, 1999

Mr. Douglas E. Howard, Director
Family Independence Agency
and
Ms. Candace L. Sorensen, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mr. Howard and Ms. Sorensen:

We have audited the General Fund financial schedules and the Children's Trust Fund financial statements of the Family Independence Agency as of and for the fiscal years ended September 30, 1998 and September 30, 1997 and have issued our report thereon dated October 22, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Family Independence Agency's financial schedules and the Children's Trust Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule and statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Family Independence Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and the Children's Trust Fund financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Family Independence Agency's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 and 2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State's management, the State Child Abuse and Neglect Prevention Board, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on Compliance With Requirements
Applicable to Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133

October 22, 1999

Mr. Douglas E. Howard, Director
Family Independence Agency
and
Ms. Candace L. Sorensen, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mr. Howard and Ms. Sorensen:

Compliance

We have audited the compliance of the Family Independence Agency with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 1998 and September 30, 1997. The Family Independence Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Family Independence Agency's management. Our responsibility is to express an opinion on the Family Independence Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining,

on a test basis, evidence about the Family Independence Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Family Independence Agency's compliance with those requirements.

As described in Findings 7 and 15 in the accompanying schedule of findings and questioned costs, the Family Independence Agency did not comply with noncooperation penalty requirements applicable to its Temporary Assistance for Needy Families Program, eligibility requirements for the Food Stamps Program, and implementation of a Statewide computerized child support enforcement system compliance with such requirements is necessary, in our opinion, for the Family Independence Agency to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the previous paragraph, the Family Independence Agency complied, in all material respects, with the requirements referred to in the third previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 1998 and September 30, 1997.

Internal Control Over Compliance

The management of the Family Independence Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Family Independence Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Family Independence Agency's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 3 through 6, 8 through 14, and 16 through 18.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions

and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the previous paragraph, we consider Findings 6, 8, 14, and 17 to be material weaknesses.

This report is intended solely for the information and use of the State's management, the State Child Abuse and Neglect Prevention Board, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

FAMILY INDEPENDENCE AGENCY
Schedule of General Fund Revenue and Operating Transfers
Fiscal Years Ended September 30
(In Thousands)

	<u>1998</u>	<u>1997</u>
REVENUE		
Federal agencies	\$ 2,116,557	\$ 2,234,552
Local governmental units	85,248	77,375
Services	2	4
Miscellaneous:		
Child support recovery of grants	62,326	64,756
Other sources	<u>31,134</u>	<u>20,526</u>
Total Revenue	\$ 2,295,266	\$ 2,397,213
OPERATING TRANSFERS		
Total Operating Transfers	<u>437</u>	<u>662</u>
Total Revenue and Operating Transfers	<u>\$ 2,295,704</u>	<u>\$ 2,397,875</u>

The accompanying notes are an integral part of the financial schedules.

FAMILY INDEPENDENCE AGENCY
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30
(In Thousands)

	<u>1998</u>	<u>1997</u>
SOURCES OF AUTHORIZATIONS		
General purpose appropriations	\$ 1,070,891	\$ 1,132,882
Budgetary transfers in (out)		(7,106)
Budgetary adjustment		(532)
Balances carried forward	24,547	17,121
Restricted financing sources	2,246,030	2,376,984
Less: Intrafund expenditure reimbursements	<u>(286)</u>	<u>(712)</u>
Total	<u>\$ 3,341,183</u>	<u>\$ 3,518,637</u>
DISPOSITION OF AUTHORIZATIONS		
Gross expenditures and operating transfers	\$ 3,277,290	\$ 3,493,608
Less: Intrafund expenditure reimbursements	<u>(286)</u>	<u>(712)</u>
Net expenditures and operating transfers	<u>\$ 3,277,005</u>	<u>\$ 3,492,896</u>
 Balances carried forward:		
Multi-year projects	\$ 27,798	\$ 18,320
Encumbrances	1,858	5,730
Restricted revenue - not authorized	<u>1,209</u>	<u>1,607</u>
Total balances carried forward	<u>\$ 30,865</u>	<u>\$ 25,657</u>
 Balances lapsed	<u>\$ 39,600</u>	<u>\$ 32,087</u>
 Overexpended (Note 5)	<u>\$ (6,288)</u>	<u>\$ (32,003)</u>
 Total	<u>\$ 3,341,181</u>	<u>\$ 3,518,637</u>

The accompanying notes are an integral part of the financial schedules.

CHILDREN'S TRUST FUND
Family Independence Agency
Balance Sheet
As of September 30

	<u>1998</u>	<u>1997</u>
ASSETS		
Current Assets:		
Equity in Common Cash (Note 6a)	\$ 3,188,448	\$ 1,966,033
Other current assets	<u>49,978</u>	<u>43,051</u>
Total Current Assets	\$ 3,238,426	\$ 2,009,084
Investments (Notes 6a and 6b)	<u>4,328,824</u>	<u>5,013,102</u>
Total Assets	<u><u>\$ 7,567,250</u></u>	<u><u>\$ 7,022,186</u></u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Warrants outstanding	\$ 33,556	\$ 17,988
Accounts payable and other liabilities	<u>92,848</u>	<u>39,126</u>
Total Liabilities	<u>\$ 126,404</u>	<u>\$ 57,114</u>
Fund Balance:		
Reserved for funds held as permanent investments (Note 6b and 6c)	\$ 6,767,343	\$ 6,246,532
Unreserved	<u>673,503</u>	<u>718,540</u>
Total Fund Balance	<u>\$ 7,440,846</u>	<u>\$ 6,965,071</u>
Total Liabilities and Fund Balance	<u><u>\$ 7,567,250</u></u>	<u><u>\$ 7,022,186</u></u>

The accompanying footnotes are an integral part of the financial statements.

CHILDREN'S TRUST FUND
Family Independence Agency
Statement of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years Ended September 30

	<u>1998</u>	<u>1997</u>
REVENUES		
Income tax checkoff (Note 6c)	\$ 805,998	\$ 658,677
Investment income	546,261	509,603
From federal agencies	599,480	740,889
Other donations	177,589	46,446
Miscellaneous	<u>58,507</u>	<u>58,507</u>
Total Revenues	<u>\$ 2,129,328</u>	<u>\$ 2,014,122</u>
EXPENDITURES		
Grants	\$ 1,223,672	\$ 1,235,102
Administration	<u>429,806</u>	<u>361,858</u>
Total Expenditures	<u>\$ 1,653,478</u>	<u>\$ 1,596,960</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 475,850</u>	<u>\$ 417,162</u>
OTHER FINANCING SOURCES (USES)		
Operating transfers from other funds	\$ 10,378	\$ (8,300)
Operating transfers to other funds	<u>(10,453)</u>	<u></u>
Total Other Financing Sources (Uses)	<u>\$ (75)</u>	<u>\$ (8,300)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 475,775	\$ 408,862
Fund Balance - Beginning of fiscal year	<u>6,965,071</u>	<u>6,556,209</u>
Fund Balance - End of fiscal year	<u>\$ 7,440,846</u>	<u>\$ 6,965,071</u>

The accompanying notes are an integral part of the financial statements.

CHILDREN'S TRUST FUND
Family Independence Agency
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Fiscal Year Ended September 30, 1998

<u>Statutory/Budgetary Basis</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES AND OTHER SOURCES			
Income tax checkoff (Note 6c)		\$ 805,998	
Investment income		546,261	
From federal agencies		599,480	
Other donations		177,589	
Operating transfers in		<u>10,378</u>	
Total Revenues and Other Sources	<u>\$ 2,139,706</u>	<u>\$ 2,139,706</u>	<u>\$ 0</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES			
Grants	\$ 1,223,672	\$ 1,223,672	\$ 0
Administration	429,806	429,806	0
Operating transfers out	<u>10,453</u>	<u>10,453</u>	<u>0</u>
Total Expenditures, Operating Transfers Out, and Encumbrances	<u>\$ 1,663,931</u>	<u>\$ 1,663,931</u>	<u>\$ 0</u>
Revenues and Other Sources Over (Under) Expenditures, Encumbrances, and Other Uses (Statutory/Budgetary Basis)	<u>\$ 475,775</u>	\$ 475,775	<u>\$ 0</u>
FUND BALANCE (GAAP BASIS)			
Beginning balance		<u>\$ 6,965,071</u>	
Ending balance (GAAP Basis)		<u>\$ 7,440,846</u>	

The accompanying notes are an integral part of the financial statements.

CHILDREN'S TRUST FUND
Family Independence Agency
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Fiscal Year Ended September 30, 1997

<u>Statutory/Budgetary Basis</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES AND OTHER SOURCES			
Income tax checkoff (Note 6c)		\$ 658,677	
Investment income		509,603	
From federal agencies		740,889	
Other donations		46,446	
Miscellaneous		<u>58,507</u>	
Total Revenues and Other Sources	<u>\$ 2,014,122</u>	<u>\$ 2,014,122</u>	<u>\$ 0</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES			
Grants	\$ 1,235,102	\$ 1,235,102	\$ 0
Administration	361,858	361,858	0
Operating transfers out	<u>8,300</u>	<u>8,300</u>	<u>0</u>
Total Expenditures, Operating Transfers Out, and Encumbrances	<u>\$ 1,605,260</u>	<u>\$ 1,605,260</u>	<u>\$ 0</u>
Revenues and Other Sources Over (Under) Expenditures, Encumbrances, and Other Uses (Statutory/Budgetary Basis)	<u>\$ 408,862</u>	\$ 408,862	<u>\$ 0</u>
FUND BALANCE (GAAP BASIS)			
Beginning balance		<u>\$ 6,556,209</u>	
Ending balance (GAAP Basis)		<u>\$ 6,965,071</u>	

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Schedules and Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Family Independence Agency (FIA) for the fiscal years ended September 30, 1998 and September 30, 1997. The financial transactions of FIA are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The accompanying financial statements report the financial position and results of operations of the Children's Trust Fund, Family Independence Agency, as of and for the fiscal years ended September 30, 1998 and September 30, 1997. This Fund is part of the State of Michigan's reporting entity and is reported as a special revenue fund in the *SOMCAFR*.

The notes accompanying these financial schedules and financial statements relate directly to FIA and the Children's Trust Fund. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Treasurer's Common Cash, Deposits and Investments, Pension Benefits and Other Postemployment Benefits, Compensated Absences, and Contingencies and Commitments.

b. Basis of Accounting and Presentation

The financial schedules and financial statements contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles (GAAP) for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for FIA's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either FIA or the State's General Fund in accordance with GAAP.

The accompanying financial statements present only the Children's Trust Fund. Accordingly, they are not intended to present fairly the financial position and results of operations of the State of Michigan or its special revenue funds.

c. Amounts Owed the State

Current and former public assistance clients owe FIA various amounts because of overpayments or advances made in anticipation of other sources. Overpayments have been entered on the Automated Recoupment System (ARS) or manual accounts receivable records, and advances are entered on FIA's potential accounts receivable records. FIA identified the following overpayments and advances (in millions):

	September 30	
	1998	1997
Overpayments and advances		
ARS	\$212.1	\$231.8
Potential and manual records	\$ 19.5	\$ 22.1

Because of the uncertainty of collecting these amounts, FIA, in accordance with GAAP, recorded accounts receivable based on actual collections in the first 60 days of the new fiscal year. The accounts

receivable and related accounts payable to the federal government were as follows:

	September 30	
	1998	1997
Accounts Receivable:		
ARS	\$1,469,035	\$1,635,443
Potential and manual records	\$ 297,437	\$ 312,352
Accounts Payable:		
ARS	\$ 539,373	\$ 630,684
Potential and manual records	\$ 13,624	\$ 22,874

The ARS Food Stamps accounts receivable (including coupons) as of September 30, 1998 and September 30, 1997 was \$75,922,804 and \$83,928,190, respectively. The Food Stamps accounts receivable applicable to the coupons are not recorded on the Michigan Administrative Information Network.

Recoveries of these accounts receivable in the first 60 days of the new year, which amounted to \$410,221, and \$393,377 as of September 30, 1998 and September 30, 1997, respectively, were recorded as accounts receivable.

Note 2 Accounting Changes
Undeliverable Warrants

In fiscal year 1997-98, FIA changed its process for estimating and recording a liability for undeliverable warrants. In prior fiscal years, FIA recorded a liability for the amount of all undelivered warrants, regardless of the amount of time the warrant was outstanding. FIA determined a more accurate estimate would be based upon the prior six months of undeliverable warrants. As a result of this change, the liability was reduced from \$13.3 million to \$2.2 million, and the receivable was reduced from \$8.1 million to \$1.5 million in fiscal year 1997-98.

Note 3 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriation and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts of FIA or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by Office of Financial Management, Department of Management and Budget.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.
- d. Restricted financing sources: Collections of restricted revenues, restricted operating transfers, and restricted intrafund expenditure reimbursements to finance department programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.
- e. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department.

- f. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. Examples of significant carry-forwards of this type are for FIA's Automated Social Services Information Systems project and other data system enhancements.
- g. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- h. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular department program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation.
- i. Balances lapsed: FIA authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.
- j. Overexpended: The total of FIA's overexpenditure of line-item authorizations. FIA is required to seek a supplemental appropriation to authorize the expenditure.

Note 4 Contingencies and Commitments

- a. Estimated Mispayments for Major Public Assistance Programs
The FIA Office of Quality Assurance (OQA) conducts ongoing quality assurance reviews of cases within the Temporary Assistance for Needy Families Program, Medical Assistance Program (Medicaid: Title XIX), and the Food Stamps Program. Based on its reviews, OQA projected the

following mispayments, excluding underpayments, for federal program reporting purposes (in millions):

	Fiscal Year	
	1997-98	1996-97
Family Independence Program (FIP)	\$40.0	\$49.4
Medicaid	33.0	32.9
Food Stamps (coupons)	68.3	62.9

The amounts reported are final OQA projections for fiscal years 1997-98 and 1996-97 and will differ from the preliminary projections reported in each year's respective *SOMCAFR*. These amounts are not required to be reported in the schedule of questioned costs. Mispayments also occur in other federal and/or State programs that OQA does not review.

Federal agencies also monitor these mispayments. FIA exceeded the tolerable federal mispayment rate in both fiscal years 1997-98 and 1996-97.

As a result, the U.S. Department of Agriculture (USDA) sanctioned FIA \$15,756,414 and \$2,770,968 for fiscal year 1997-98 and 1996-97, respectively. USDA and FIA entered into settlement agreements whereby FIA agreed to reinvest \$7,878,207 and \$207,823 in fiscal years 1997-98 and 1996-97, respectively, in food stamp initiatives. The balance of the fiscal year 1997-98 sanction remains contingent upon the level of payment accuracy FIA achieves during the period October 1, 1998 through September 30, 2002. USDA waived the remaining \$2,563,145 of the fiscal year 1996-97 sanction.

FIA also has ongoing processes to recover the mispayments from clients. Recoveries related to these mispayments are described in Note 1c.

b. Litigation - *Zebley v Sullivan*

A federal district court ordered the U.S. Social Security Administration and states with the State Supplementation Programs to make retroactive Social Security Income payments (for inappropriately denied claims) back to January 1, 1980. The retroactive payments are due to individuals previously denied childhood Social Security Income eligibility. There is no further

litigation pending. A liability of \$374,000 is included in the schedule of certain General Fund assets and liabilities for fiscal years 1997-98 and 1996-97.

c. Computerized Child Support Enforcement System

The U.S. Department of Health and Human Services (HHS) penalized FIA \$4.3 million in fiscal year 1997-98 for failing to have an operational Statewide computerized enforcement system in effect by October 1, 1997.

The Statewide computerized support enforcement system must control, account for, and monitor all the factors in support collection and paternity determination processes under the State plan for Michigan's child support program.

FIA's payment of the penalty amounts will be through a \$4.3 million reduction in its fiscal year 1999-2000 Title IV-D Child Support Enforcement federal grant award.

FIA's target date for complete Statewide operation is September 30, 2000. FIA will be subject to an additional \$15.9 million penalty for fiscal year 1999-2000 unless it adheres to this target date.

d. Adoption and Foster Care Analysis and Reporting System

HHS penalized FIA \$285,108 in fiscal year 1997-98 after determining the State was not in substantial compliance with the Title IV-E Foster Care State Plan regarding reporting required information to HHS. HHS suspended the penalty pending FIA's corrective action. Federal regulation provides for additional penalties for each year the State is not in substantial compliance with the requirement.

Note 5 Overexpenditure of Authorizations

FIA overexpended its legislative authorizations for the fiscal years ended September 30, 1998 and September 30, 1997 by \$6,287,527 and \$32,003,113, respectively, as reported on the schedule of sources and disposition of General Fund authorizations. Article 9, Section 17 of the State Constitution prohibits overexpenditures except in pursuance of appropriations made by law.

Note 6 Children's Trust Fund

a. Investments

Section 21.171 of the *Michigan Compiled Laws* directs the State Treasurer to invest Children's Trust Fund money the same manner as State surplus funds are invested pursuant to Section 21.143 of the *Michigan Compiled Laws*. "Equity in Common Cash" represents an interest in the State's Common Cash pool, which is used by most State funds as a short-term investment vehicle.

Governmental Accounting Standards Board (GASB) Statement No. 3 requires certain disclosures regarding policies and practices with respect to investments and the custodial risk associated with them. Disclosures pursuant to GASB Statement No. 3 for the State's Common Cash pool are included in the footnotes to the *SOMCAFR*. All of the investments of the Children's Trust Fund were insured or registered, or held by the State or its agent in the State's name (GASB risk category 1).

At September 30, 1998, the Children's Trust Fund held investments in U.S. government agency or government sponsored enterprise securities in the name of the State. At September 30, 1997, the Children's Trust Fund held investments in U. S. Treasury securities and U. S. government agency or government sponsored enterprise securities in the name of the State. All investments were reported at fair value.

b. Accounting Changes

During fiscal year 1997-98, the State implemented Government Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for General Investment Pools*. The provisions of the Statement require investments to be reported at fair value rather than at cost. The change in fair value of investments from one reporting period to the next is reported as an adjustment to investment income.

In accordance with GASB Statement No. 31, FIA retroactively applied the provisions of GASB 31 for the fiscal year ended September 30, 1997. As a

result, the Children's Trust Fund investments, investment income, and ending fund balance are \$46,840 higher than what was reported in the fiscal year 1996-97 *SOMCAFR*.

FIA recognized investment income of \$110,885 for the fiscal year ended September 30, 1998 for the increase in fair value of investments.

c. Expenditure Limitation of Children's Trust Fund

Section 21.171 of the *Michigan Compiled Laws* limits the Children's Trust Fund's expenditures to the total of investment earnings from the previous fiscal year, grants and donations, and one half of the funds contributed from the personal income tax checkoffs. The Fund records a fund balance reserve for one half of donations from income tax checkoffs that are not available for expenditure.

d. Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

Budget detail by revenue account and expenditure account for fiscal years 1997-98 and 1996-97 is not available because the various miscellaneous revenues and expenditures are budgeted as single amounts.

Note 7 Subsequent Event

The U.S. Department of Health and Human Services (HHS) penalized FIA an additional \$8.4 million in fiscal year 1998-99 for failing to have an operational Statewide computerized enforcement system in effect by October 1, 1998. The Statewide computerized support enforcement system must control, account for, and monitor all the factors in support collection and paternity determination processes under the State plan for Michigan's child support program.

FIA's payment of the penalty amounts will be through an \$8.4 million reduction in its fiscal year 1998-99 Child Support Enforcement federal grant award.

SUPPLEMENTAL FINANCIAL SCHEDULES

FAMILY INDEPENDENCE AGENCY
Schedule of Certain General Fund Assets and Liabilities
As of September 30
(In Thousands)

	<u>1998</u>	<u>1997</u>
ASSETS		
Current Assets		
Due from federal agencies	\$ 252,923	\$ 353,915
Due from local units of government	\$ 60,407	\$ 21,757
Due from child support recovery of grants	\$ 95,662	\$ 97,382
Miscellaneous accounts receivable	\$ 7,345	\$ 6,628
Food stamps	\$ 105,984	\$ 233,669
Inventories	\$ 626	\$ 499
Noncurrent Assets:		
Due from local units of government	\$ 4,459	\$ 35,623
Miscellaneous accounts receivable (long-term)	\$ 562	\$ 486
LIABILITIES		
Accounts payable - operating and grants	\$ 62,608	\$ 49,761
Child support collections/incentives payable	\$ 8,609	\$ 8,048
Unearned receipts payable	\$ 73,586	\$ 86,102
Deferred revenue - unearned	\$ 106,035	\$ 233,905
Amounts held in custody for others	\$ 40	\$
Due to other funds	\$	\$ 232

This schedule of certain General Fund assets and liabilities is not representative of a balance sheet and is not intended to report financial condition. This schedule presents certain significant General Fund assets and liabilities which result directly from the operations of, and are the responsibility of, the Family Independence Agency. The schedule excludes certain other assets, such as land, buildings, equipment, equity in Common Cash, and cash in transit, and certain other liabilities, such as warrants outstanding, that are accounted for centrally by the State.

FAMILY INDEPENDENCE AGENCY
Schedule of Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 1998
(In Thousands)

<u>Appropriation Unit</u>	<u>Total Authorizations</u>	<u>Gross Expenditures and Operating Transfers</u>	<u>Intrafund Expenditure Reimbursements</u>
Executive operations	\$ 190,700	\$ 158,444	
Central support accounts	202,328	197,572	
Disability Determination Services	55,182	55,182	
Public assistance	1,664,711	1,659,615	
Individual family grant - Federal Emergency Management Assistance	1,260	1,260	\$ (286)
Residential Care Division	80,284	84,360	
Assistance payments, services, and clerical field staff	396,522	376,434	
Office of Child and Youth Services	544,873	542,593	
Field Policy and Operations Administration	180,452	176,882	
Balance sheet funding	16	4	
Miscellaneous accounts receivable write-offs/disallowances	22,614	22,614	
Court judgments	2,104	2,104	
Prior year expenditures in excess of available balance	424	227	
Total	<u>\$ 3,341,468</u>	<u>\$ 3,277,290</u>	<u>\$ (286)</u>

<u>Net Expenditures and Operating Transfers</u>	<u>Multi-Year Projects</u>	<u>Encumbrances</u>	<u>Restricted Revenue - Not Authorized</u>	<u>Balances Lapsed</u>	<u>Overexpended</u>
\$ 158,444	\$ 27,272	\$ 1,365	\$ 1,063	\$ 2,555	
197,572				4,756	
55,182					
1,659,615		1	100	6,112	\$ (1,117)
974					
84,360		296		752	(5,125)
376,434	488	165		19,436	
542,593		3	46	2,277	(46)
176,882	39	28		3,503	
4				12	
22,614					
2,104					
227				197	
<u>\$ 3,277,005</u>	<u>\$ 27,798</u>	<u>\$ 1,858</u>	<u>\$ 1,209</u>	<u>\$ 39,600</u>	<u>\$ (6,288)</u>

FAMILY INDEPENDENCE AGENCY
Schedule of Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 1997
(In Thousands)

<u>Appropriation Unit</u>	<u>Total</u> <u>Authorizations</u>	<u>Gross Expenditures</u> <u>and Operating</u> <u>Transfers</u>	<u>Intrafund</u> <u>Expenditure</u> <u>Reimbursements</u>
Executive operations	\$ 147,039	\$ 125,614	
Central support accounts	231,837	232,189	
Disability Determination Services	58,562	58,562	
Public assistance	1,599,283	1,602,409	
Medical Services	(7)	(7)	
Medical Services Administration	4		
Individual family grant - Federal Emergency Management Assistance	3,174	3,115	\$ (712)
Residential Care Division	93,740	91,962	
Assistance payments, services, and clerical field staff	392,050	390,663	
Office of Child and Youth Services	781,518	781,108	
Field Policy and Operations Administration	181,660	175,338	
Balance sheet funding	19		
Miscellaneous accounts receivable write-offs/disallowances	29,105	31,257	
Court judgments	<u>1,399</u>	<u>1,399</u>	
Total	<u>\$ 3,519,381</u>	<u>\$ 3,493,608</u>	<u>\$ (712)</u>

Net Expenditures and Operating Transfers	Multi-Year Projects	Encumbrances	Restricted Revenue - Not Authorized	Balances Lapsed	Overexpended
\$ 125,614	\$ 14,326	\$ 3,641	\$ 818	\$ 2,813	\$ (190)
232,189		249		6,259	(6,859)
58,562			2		(2)
1,602,409				6,784	(9,910)
(7)					0
		2		2	(2)
2,403				59	
91,962		63	750	2,071	(1,103)
390,663		1,188		2,504	(2,316)
781,108		80	9	8,574	(8,255)
175,338	3,994	481	28	3,023	(1,205)
		25			(9)
31,257					(2,152)
1,399					
<u>\$ 3,492,896</u>	<u>\$ 18,320</u>	<u>\$ 5,730</u>	<u>\$ 1,607</u>	<u>\$ 32,087</u>	<u>\$ (32,003)</u>

FAMILY INDEPENDENCE AGENCY
Schedule of Expenditures of Federal Awards*
For the Period October 1, 1996 through September 30, 1998
(In Thousands)

		For the Fiscal Year Ended September 30, 1997			
<u>Federal Agency/Program or Cluster</u>	<u>CFDA** Number</u>	<u>Pass-Through Identification Number</u>	<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>
<u>U.S. Department of Agriculture</u>					
Direct Programs					
Food Stamp Cluster					
Food Stamps (Note 2a)	10.551		\$ 685.369	\$	\$ 685.369
State Administrative Matching Grants for Food Stamp Program	10.561		<u>59,842</u>	<u>2,944</u>	<u>62,786</u>
Total Food Stamp Cluster			<u>\$ 745,211</u>	<u>\$ 2,944</u>	<u>\$ 748,155</u>
Pass-Through Programs					
Department of Education					
Child Nutrition Cluster					
School Breakfast Program	10.553	USDA 196 Sect 11	\$ 818	\$	\$ 818
School Breakfast Program	10.553	USDA 197 Breakfast			
National School Lunch Program	10.555	USDA 195 Sect 4	<u>57</u>		<u>57</u>
Total Child Nutrition Cluster			<u>\$ 875</u>	<u>\$</u>	<u>\$ 875</u>
Total U.S. Department of Agriculture			<u>\$ 746,086</u>	<u>\$ 2,944</u>	<u>\$ 749,030</u>
<u>U.S. Department of Housing and Urban Development</u>					
Supportive Housing Program	14.235		<u>\$</u>	<u>\$</u>	<u>\$</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>U.S. Department of Justice</u>					
Direct Programs					
Juvenile Accountability Incentive Block Grants	16.523		\$	\$	\$
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		533		533
Title V - Delinquency Prevention Program	16.548			2,616	2,616
Part E - State Challenge Activities	16.549				
Violence Against Women Formula Grants	16.588		<u>63</u>	<u>3,108</u>	<u>3,171</u>
Total Direct Programs			<u>\$ 596</u>	<u>\$ 5,724</u>	<u>\$ 6,320</u>
Pass-Through Program					
Department of Community Health					
Residential Substance Abuse Treatment for State Prisoners	16.593	90002-1596	\$ 80	\$	\$ 80
Residential Substance Abuse Treatment for State Prisoners	16.593				
Total U.S. Department of Justice			<u>\$ 676</u>	<u>\$ 5,724</u>	<u>\$ 6,400</u>
<u>U.S. Department of Energy</u>					
Weatherization Assistance for Low-Income Persons	81.042		<u>\$ (2,353)</u>	<u>\$ 6,394</u>	<u>\$ 4,040</u>
Total U.S. Department of Energy			<u>\$ (2,353)</u>	<u>\$ 6,394</u>	<u>\$ 4,040</u>
<u>U.S. Department of Education</u>					
Direct Programs					
Education Consolidation Improvement Act	84	***	\$ (298)	\$	\$ (298)
Reimbursement Program	84	***			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126		9,832	220	10,052
Eisenhower Professional Development - Federal Activities	84.168		123		123
Independent Living - State Grants	84.169		205		205
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177		195		195
Supported Employment Services for Individuals with Severe Disabilities	84.187		99		99
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265		<u>20</u>		<u>20</u>
Total Direct Programs			<u>\$ 10,175</u>	<u>\$ 220</u>	<u>\$ 10,395</u>

This schedule continued on next page.

For the Fiscal Year Ended September 30, 1998

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 592,614	\$	\$ 592,614	\$ 1,277,983
	67,891	3,260	71,151	133,937
	<u>\$ 660,504</u>	<u>\$ 3,260</u>	<u>\$ 663,765</u>	<u>\$ 1,411,920</u>
USDA 196 Sect 11	\$ 1,014	\$	\$ 1,014	\$ 1,832
USDA 197 Breakfast				
USDA 195 Sect 4	68		68	125
	<u>\$ 1,082</u>	<u>\$ 0</u>	<u>\$ 1,082</u>	<u>\$ 1,957</u>
	<u>\$ 661,587</u>	<u>\$ 3,260</u>	<u>\$ 664,847</u>	<u>\$ 1,413,877</u>
	\$ 606	\$ 14	\$ 621	\$ 621
	<u>\$ 606</u>	<u>\$ 14</u>	<u>\$ 621</u>	<u>\$ 621</u>
	\$ 19	\$	\$ 19	\$ 19
	3,535	207	3,743	4,276
	1,108		1,108	3,724
	353		353	353
	3,280	624	3,904	7,075
	<u>\$ 8,295</u>	<u>\$ 831</u>	<u>\$ 9,127</u>	<u>\$ 15,447</u>
90002-1596	\$ 482	\$	\$ 482	\$ 562
90002-2S97				
	<u>\$ 8,778</u>	<u>\$ 831</u>	<u>\$ 9,609</u>	<u>\$ 16,009</u>
	\$ 8,347	\$	\$ 8,347	\$ 12,387
	<u>\$ 8,347</u>	<u>\$ 0</u>	<u>\$ 8,347</u>	<u>\$ 12,387</u>
	\$ 59	\$	\$ 59	\$ (239)
	551		551	551
	8,814	1	8,815	18,867
				123
				205
	191		191	386
	301		301	400
	571		571	591
	<u>\$ 10,487</u>	<u>\$ 1</u>	<u>\$ 10,488</u>	<u>\$ 20,883</u>

FAMILY INDEPENDENCE AGENCY
Schedule of Expenditures of Federal Awards*
For the Period October 1, 1996 through September 30, 1998
(In Thousands)

For the Fiscal Year Ended September 30, 1997					
	CFDA**	Pass-Through	Directly	Distributed to	Total
Federal Agency/Program or Cluster	Number	Identification	Expended	Subrecipients	Expended and
		Number			Distributed
Pass-Through Programs					
Department of Education					
Adult Education - State Grant Program	84.002	1197/97091	\$ 127	\$	\$ 127
Title I Program for Neglected and Delinquent Children	84.013	0.213	928		928
Title I Program for Neglected and Delinquent Children	84.013	1597/7506			
Special Education - Grants to States	84.027	6.984	105		105
Special Education - Grants to States	84.027	7.000			
Special Education - Grants to States	84.027	7.766			
Special Education - Grants to States	84.027	0497/D64			
Vocational Education - Basic Grants to States	84.048	0.215	237		237
Vocational Education - Basic Grants to States	84.048	3327/6602			
Special Education - Grants for Infants and Families with Disabilities	84.181	1336/1ACFIA	187		187
Special Education - Grants for Infants and Families with Disabilities	84.181	1365/1ACDSS			
Safe and Drug-Free Schools and Communities - State Grants	84.186	2866/DRUG1396C	3		3
Safe and Drug-Free Schools and Communities - State Grants	84.186	2867/DRUG4797			
Innovative Education Program Strategies	84.298	0256/15	12		12
Innovative Education Program Strategies	84.298	0257/15			
Total Pass-Through Programs			\$ 1,598	\$ 0	\$ 1,598
Total U.S. Department of Education			\$ 11,773	\$ 220	\$ 11,993
U.S. Department of Health and Human Services					
Direct Programs					
Family Preservation and Support Services (Note 2b(1))	93.556		\$ 7,312	\$ 7,809	\$ 15,120
Temporary Assistance for Needy Families (TANF) (Note 3)	93.558		548,382	57,130	605,512
Family Support Payments to States - Assistance Payments (Aid to Families With Dependent Children) (Note 2a)	93.560		(3,746)		(3,746)
Job Opportunities and Basic Skills Training	93.561		77	(3,366)	(3,288)
Child Support Enforcement (CSE) (Note 2a)	93.563		133,315	169	133,484
Refugee and Entrant Assistance - State Administered Programs	93.566		4,852	2,069	6,921
Low-Income Home Energy Assistance (Note 2b(1))	93.568		61,442	6,456	67,898
Community Services Block Grant (Note 2b(1))	93.569		820	17,519	18,339
Homeless Block Grant Program	93.572		204	496	700
Child Care and Development Block Grant	93.575		19,866	2,996	22,862
Refugee and Entrant Assistance - Discretionary Grants	93.576		332		332
Refugee and Entrant Assistance - Targeted Assistance	93.584		213		213
Empowerment Zones Program	93.585		(1,114)	4,939	3,825
Family Violence Prevention and Services/Grants for Battered Women's Shelters: Discretionary Grants	93.592				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Notes 2b(1) and 3)	93.596		67,645	30	67,675
Grants to States for Access and Visitation Programs	93.597				
Head Start	93.600		66	44	110
Children's Justice Grants to States	93.643		315	342	657
Child Welfare Services - State Grants (Note 2b(1))	93.645		9,717	697	10,414
Social Services Research and Demonstration	93.647		21	5	26
Adoption Opportunities	93.652		2	275	277
Temporary Child Care and Crisis Nurseries	93.656		75	175	250
Foster Care - Title IV-E (Note 2a)	93.658		125,162	1,699	126,861
Adoption Assistance (Note 2a)	93.659		43,424		43,424

This schedule continued on next page.

For the Fiscal Year Ended September 30, 1998

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
ABE 1198/98025 1598/8506	\$ 89 540	\$	\$ 89 540	\$ 216 1,468
0448/64 0498/64	39		39	144
3328/8602	154		154	392
1337/ACFIA	89		89	276
2867/DRUG4797	1		1	4
				12
	\$ 913	\$ 0	\$ 913	\$ 2,511
	\$ 11,400	\$ 1	\$ 11,401	\$ 23,394

\$ 9,508	\$ 73	\$ 9,581	\$ 24,701
447,836	76,922	524,759	1,130,271
5,026		5,026	1,280
13		13	(3,275)
84,192	46,895	131,088	264,572
5,480	1	5,480	12,401
58,596	508	59,104	127,002
	17,407	17,407	35,745
			700
756	735	1,491	24,353
	110	110	441
71	203	274	488
6,530		6,530	10,355
8		8	8
243,776	927	244,703	312,378
161	35	195	195
67	64	131	241
158	57	216	873
10,081	13	10,094	20,509
(12)		(12)	14
123		123	400
10	23	33	283
131,157	1,365	132,523	259,384
52,425	8	52,433	95,857

FAMILY INDEPENDENCE AGENCY
Schedule of Expenditures of Federal Awards*
For the Period October 1, 1996 through September 30, 1998
(In Thousands)

<u>For the Fiscal Year Ended September 30, 1997</u>					
<u>Federal Agency/Program or Cluster</u>	<u>CFDA**</u>	<u>Pass-Through</u>	<u>Directly</u>	<u>Distributed to</u>	<u>Total</u>
	<u>Number</u>	<u>Identification</u>	<u>Expended</u>	<u>Subrecipients</u>	<u>Expended and</u>
		<u>Number</u>			<u>Distributed</u>
Social Services Block Grant (SSBG) (Notes 2b(1) and 3)	93.667		\$ 137,537	\$ 31,223	\$ 168,759
Child Abuse and Neglect State Grants	93.669			1,203	1,203
Child Abuse and Neglect Discretionary Activities (Note 2b(1))	93.670		509	129	638
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671		179	796	975
Independent Living (Note 2b(1))	93.674		3,539	1,923	5,462
Preventive Health and Health Services Block Grant	93.991		792		792
Total Direct Programs			<u>\$ 1,160,939</u>	<u>\$ 134,755</u>	<u>\$ 1,295,694</u>
Pass-Through Programs					
Department of Community Health					
Medicaid Cluster					
State Survey and Certification of Health Care Providers and Suppliers	93.777	05 97 MI 5001	\$	\$ 2,832	\$ 2,832
Medical Assistance Program (Medicaid, Title XIX) (Note 2a)	93.778	05 96 05 MI 5028	160,316	(176,551)	(16,235)
Medical Assistance Program (Medicaid, Title XIX) (Note 2a)	93.778	05 96 05 MI 5048			
Medical Assistance Program (Medicaid, Title XIX) (Note 2a)	93.778	05 97 05 MI 5028			
Medical Assistance Program (Medicaid, Title XIX) (Note 2a)	93.778	05 97 05 MI 5048			
Total Medicaid Cluster			<u>\$ 160,316</u>	<u>\$ (173,720)</u>	<u>\$ (13,403)</u>
Department of Education					
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		\$	\$	\$
Total Cooperative Agreements			<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Pass-Through Programs			<u>\$ 160,316</u>	<u>\$ (173,720)</u>	<u>\$ (13,403)</u>
Total U.S. Department of Health and Human Services			<u>\$ 1,321,256</u>	<u>\$ (38,965)</u>	<u>\$ 1,282,290</u>
<u>Corporation for National and Community Service</u>					
Pass-Through Programs					
Michigan Jobs Commission					
AmeriCorps	94.006	0 95 01 AM50429	\$ 85	\$	\$ 85
Total Corporation for National and Community Service			<u>\$ 85</u>	<u>\$ 0</u>	<u>\$ 85</u>
<u>Social Security Administration</u>					
Social Security - Disability Insurance	96.001		\$ 62,551	\$ 2,120	\$ 64,671
Total Social Security Administration			<u>\$ 62,551</u>	<u>\$ 2,120</u>	<u>\$ 64,671</u>
Total Expenditures of Federal Awards			<u>\$ 2,140,073</u>	<u>\$ (21,564)</u>	<u>\$ 2,118,509</u>

* Basis of Presentation: This schedule includes the federal grant activity of the Family Independence Agency and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

** CFDA is defined as *Catalog of Federal Domestic Assistance*.

*** CFDA number not available. Number derived from federal agency number and grant or contract number, if available.

For the Fiscal Year Ended September 30, 1998

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 155,483	\$ 938	\$ 156,421	\$ 325,180
	671		671	1,874
	501	49	550	1,188
	1,496	342	1,838	2,813
	4,114	228	4,342	9,804
	233	486	720	1,511
	<u>\$ 1,218,460</u>	<u>\$ 147,390</u>	<u>\$ 1,365,851</u>	<u>\$ 2,661,545</u>

05 97 MI 5001	\$	\$ (2,832)	\$ (2,832)	\$
05 96 05 MI 5048	80,750	139	80,889	64,654
05 97 05 MI 5028				
05 97 05 MI 5048				
	<u>\$ 80,750</u>	<u>\$ (2,693)</u>	<u>\$ 78,057</u>	<u>\$ 64,654</u>

2757/AIDS2	\$ 13	\$	\$ 13	\$ 13
2758/HIV49				
	<u>\$ 13</u>	<u>\$ 0</u>	<u>\$ 13</u>	<u>\$ 13</u>
	\$ 80,763	\$ (2,693)	\$ 78,070	\$ 64,667
	<u>\$ 1,299,224</u>	<u>\$ 144,697</u>	<u>\$ 1,443,921</u>	<u>\$ 2,726,212</u>

0 95 01 AM50429	\$ 311	\$	\$ 311	\$ 396
	<u>\$ 311</u>	<u>\$ 0</u>	<u>\$ 311</u>	<u>\$ 396</u>
	\$ 57,905	\$ 4	\$ 57,910	\$ 122,580
	<u>\$ 57,905</u>	<u>\$ 4</u>	<u>\$ 57,910</u>	<u>\$ 122,580</u>
	<u>\$ 2,048,159</u>	<u>\$ 148,808</u>	<u>\$ 2,196,967</u>	<u>\$ 4,315,476</u>

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Significant Accounting Policies

The schedule of expenditures of federal awards (SEFA) is prepared in accordance with generally accepted accounting principles. The modified accrual basis of accounting is used in connection with federal expenditures reported on the SEFA. Differences will exist between federal expenditures shown on the SEFA and related assistance award amounts because of:

- a. Program expenditures exceeding the authorized level of federal assistance.
- b. Accrual amounts recorded on the State's accounting system after the preparation of the federal financial reports for the fiscal year.

Note 2 Grant Awards

- a. Supplemental grant awards are pending for the following federal program areas:

	Fiscal Year	
	1997-98	1996-97
Food Stamp Cluster (10.551 and 10.561)	X	X
Family Support Payments to States - Assistance Payments (93.560)		X
Child Support Enforcement (93.563)	X	X
Foster Care - Title IV-E (93.658)	X	X
Adoption Assistance (93.659)	X	X
Medical Assistance Program (93.778)		X

There is no official award amount for food stamp coupons. Claims for the federal Food Stamp Cash Out Program for fiscal years 1997-98 and 1996-97 totaled \$155,948,190 and \$120,679,496, respectively. A balance

of \$2,948,926 for Food Stamp Grant #LOC 42646 96 has been closed out and is not available to the Family Independence Agency (FIA) to spend.

- b. Federal revenue, as reported on FIA's schedule of revenue and operating transfers, will be different from the federal expenditures shown on the SEFA because of the following:

- (1) Program expenditures exceeded the grant awards (over the grant ceiling) in the following program areas (expenditures not reimbursed that could be reimbursed if program disallowances occur):

	Fiscal Year	
	1997-98	1996-97
Family Preservation and Support Services (93.556)	\$ 5,087,090	
Low-Income Home Energy Assistance (93.568)		\$ 2,392,585
Community Services Block Grant (93.569)	\$ 152,715	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund (93.596)		\$ 4,211,651
Child Welfare Services - State Grants (93.645)	\$65,059,004	
Social Services Block Grant (93.667)	\$10,434,609	\$145,422,796
Child Abuse and Neglect Discretionary Activities (93.670)	\$ 14,588	
Independent Living (93.674)	\$ 118,500	

The SEFA shows the net federal claim amounts (total federal claims less the amounts over the grant ceiling amounts).

- (2) Program expenditures, including accruals, totaling \$77,348,280 and a negative \$116,973,131 in fiscal years 1997-98 and 1996-97, respectively, by other State agencies had the corresponding revenue

transferred from FIA accounts to the applicable agencies' revenue accounts (distributed to subrecipients - State entities).

- (3) FIA may retain all of the State share of food stamp overissuance collections as an offset to the State share of administering the program. Total food stamp overissuances for fiscal years 1997-98 and 1996-97 were \$2.0 million and \$1.2 million, respectively.

- c. Program expenditures reported on FIA's quarterly federal reports (prepared on the cash basis in fiscal year 1996-97) will be different from the expenditures shown on the SEFA because of the following:

	Fiscal Year	
	1997-98	1996-97
Federal revenue in connection with purchased services accrual totaled:	(\$2,925,223)	\$172,309,522
Federal revenue (net fiscal years 1996-97 and 1997-98):		
Appropriation number 99900 - Established through write-off of prior year decreasing claims	\$3,936,025	\$ 2,316,235
Appropriation number 99950		\$ 497,898
Federal revenue recorded in 99900 for purposes of funding the write-off account		\$ 19,469,354

- d. Other federal claim adjustments totaled a negative \$1,077,989 on the federal reports but did not generate federal revenues.

Note 3 Transfer of Award

FIA transferred grant award money from the Temporary Assistance for Needy Families (TANF) grant to the following, as allowed by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (HR3734):

	Fiscal Year	
	1997-98	1996-97
From: Temporary Assistance for Needy Families (93.558)	\$220,643,563	\$103,499,570
To: Child Care Mandatory and Matching Funds of the Child Care and Development Fund (93.596)	\$147,861,556	\$ 26,688,930
To: Social Services Block Grant (93.667)	\$ 72,782,007	\$ 76,810,640

OTHER REQUIRED SCHEDULES

FAMILY INDEPENDENCE AGENCY
Summary Schedule of Prior Audit Findings
As of October 22, 1999

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 1a

Finding: FIA expenditures authorized through the Unified Child Day Care payment system did not reconcile to expenditures recorded on the State's central accounting system (MAIN).

Comments: FIA modified its payment coding to allow proper reconciliation between the payment system and the State's central accounting system (MAIN).

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 12

Finding: FIA's internal control procedures did not ensure that Children's Trust Fund transactions were properly accounted for on MAIN and that operating units established appropriate General Fund accounts payable at fiscal year-end.

Comments: FIA Bureau of Accounting staff consult with Children's Trust Fund staff to ensure that Fund transactions are properly accounted for, including General Fund accounts payable at fiscal year end. Additionally, Bureau of Accounting has made available additional year-end training sessions to help ensure operating units establish appropriate General Fund accounts payable and encumbrances at year-end.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 4

Finding: FIA's internal control structure sometimes did not ensure that expenditures were properly approved and that proper documentation was maintained to support expenditures processed.

Comments: FIA agreed and accommodated proper documentation of proper expenditure approval and support.

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 11a

Finding: FIA did not comply with prescribed Personnel-Payroll System for Michigan internal control procedures for preparing time and attendance reports.

Comments: FIA agreed and will issue a reminder to comply with State and FIA policies and procedures.

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 11b

Finding: FIA did not maintain effective internal controls over the processing of personnel and payroll transactions.

Comments: FIA agreed and will issue a reminder to comply with State and FIA policies and procedures.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 1b

Finding: FIA sometimes charged expenditures to an inappropriate federal grant.

Comments: FIA Bureau of Accounting sends copies of federal reports to the appropriate program office to ensure expenditures are properly recorded.

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 5a

Finding: FIA's internal control structure did not ensure that all child support payments were properly distributed.

Comments: FIA agreed and has updated policy for all friend of the court offices in the 65 counties using the Child Support Enforcement System regarding monthly conversion, application of support collections, and distribution of child support payments.

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 6a

Finding: FIA did not maintain controls to prevent the processing of adoption subsidy payments for ineligible children.

Comments: FIA agreed and instituted a corrective procedure in November 1997.

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 7a

Finding: FIA's internal control structure did not ensure that Disability Determination Services Program expenditures reported in the schedule of federal financial assistance and federal program reports were supported by amounts reported on the State's central accounting system (MAIN).

Comments: FIA agreed and, in cases where timing differences exist, FIA will maintain appropriate documentation to support the reported costs.

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 8

Finding: FIA's internal control structure did not ensure that dwellings previously weatherized were only re-weatherized in accordance with federal regulations.

Comments: FIA agreed and implemented procedures to comply.

Audit Period: October 1, 1994 through September 30, 1996
Finding Number: 9
Finding: FIA's internal control structure did not provide for the timely review of subrecipient audit reports and did not ensure that audit report information requiring follow-up was accurately recorded.
Comments: FIA agreed and implemented a pre-review system to ensure that audit reports with findings and questioned costs are identified within a few days of receipt, and are promptly reviewed and findings forwarded to management so that appropriate corrective action can be taken in a timely fashion. Also, audit logs have been revised to identify audit report information requiring follow-up.

Audit Period: October 1, 1994 through September 30, 1996
Finding Number: 10
Finding: FIA's internal control structure did not ensure timely completion of the Title IV-F Job Opportunities and Basic Skills Training (JOBS) maintenance of effort calculation and did not provide for complete written procedures for preparing the calculation.
Comments: FIA agreed; however, the elimination of the Title IV-F JOBS program makes this recommendation no longer applicable.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1994 through September 30, 1996
Finding Number: 2
Finding: FIA local office staff frequently did not comply with established case file internal control procedures for documenting client eligibility and the propriety of public assistance expenditures and for authorizing payments to vendors.
Comments: FIA agrees and continues to implement improvements in this area. FIA provides local offices with audit reports to be used as a management tool to inform staff of the need to follow proper internal control procedures related to file documentation.

Audit Period: October 1, 1994 through September 30, 1996
Finding Number: 3
Finding: FIA's internal control structure did not provide for compliance with State and federal cash management standards.
Comments: FIA agrees and has met with officials from the U.S. Department of Treasury and Michigan Department of Treasury in September 1998. The Michigan Department of Treasury provided specific recommendations to FIA in a memorandum dated October 5, 1998. These recommendations included ways to improve tracking federal grant awards and verifying the availability of federal funds.

Audit Period: October 1, 1994 through September 30, 1996
Finding Number: 5b
Finding: FIA child support specialists sometimes did not comply with established internal control procedures regarding locating absent parents and following up referrals to the county prosecutor.
Comments: FIA agreed and noted several improvements to the Office of Child Support locating procedures are in progress.

Audit Period: October 1, 1994 through September 30, 1996
Finding Number: 6b
Finding: Effective September 1996, FIA no longer produced output reports to verify additions, changes, or deletions to the adoption subsidy payment system.
Comments: FIA agreed; however the development of an automated system is on hold pending Year 2000 priorities. The program office is developing a manual logging process that will be utilized to verify the number of payroll changes initiated monthly by the adoption subsidy unit.

Audit Period: October 1, 1994 through September 30, 1996
Finding Number: 7b
Finding: FIA's internal control structure did not provide for a reconciliation of outstanding Food Stamp claims and collection amounts reported to the U.S. Department of Agriculture with FIA's automated records. Also, FIA did not reconcile reported Food Stamp claims and

collection summary information with supporting client case files during our audit period.

Comments:

FIA agreed and is writing procedures to comply.

FAMILY INDEPENDENCE AGENCY

Corrective Action Plan

As of September 27, 2000

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 439901

Finding Title: Personnel and Payroll Transactions

Management Views: The Family Independence Agency (FIA) agrees with the recommendations and has complied. However, it should be noted that the Michigan Administrative Information Network - Human Resources Systems Division (MAIN-HRS) has recommended to the Department of Management and Budget (DMB) that, because of the decrease from four days to two days for input of time and attendance, it would like to consolidate the timekeepers' audit function with the certification function. The reason for this is that the two steps take a considerable amount of time and the supervisor should have approved the employee's time, therefore, it should not have to be re-reviewed. Also, after the fact, reports can be reviewed to compare data entered against the actual time and attendance reports.

As it relates to Finding 1b(1), the majority of staff who had the control transaction capability had it as "backup only" because the report must be run each day and, if the actual control person was not available, someone had to obtain the report whether or not it was reconciled that day.

Corrective Action: FIA issued a memorandum to remind timekeepers and certifiers of appropriate procedures. FIA will continue to review timekeeping units that have timekeepers and/or certifiers in the units that they report time on or

certify to ensure that the compensating control of having the appropriate manual signature on the line or page that the timekeeper's or certifier's name appears on is being applied.

FIA has deleted the control transaction capability from most of the employees who did not reconcile the report.

FIA will continue to issue reminders regarding the correct way to reconcile the control report.

Anticipated Completion Date: Completed
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 439902

Finding Title: Adoption Subsidy Payment System

Management Views: FIA agrees with the recommendation and will comply.

Corrective Action: Service requests were submitted in October 1997 and October 1998 to develop a weekly transaction log that would compare the changes entered by the Payment Document Control System into the Adoption Subsidy Payroll Database with the payroll requests initiated and approved by the Adoption Subsidy Program Unit and to randomly review cases. Because of year 2000 and other priorities, these service requests have not been completed.

Since the end of the audit period and prior to the beginning of the audit, the Payment Document Control Division changed its reconciliation procedures. Within the Payment Document Control Division, all information entered into the adoption subsidy payment system is verified. The original document is audited and entered into the system by a clerk in the Program Payments Unit. The documents are then forwarded to the Payment Reconciliation Section where each calculation and entry

is verified. A data system service request has been submitted by the Payment Reconciliation Section to get a printed report of all changes.

Anticipated Completion Date: December 31, 2001

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 439903

Finding Title: Fixed Assets

Management Views: FIA agrees with the recommendation and will comply.

Corrective Action: Revised operational procedures have been implemented to properly account for fixed assets in accordance with State of Michigan policy and federal regulations. The Child Support Enforcement System (CSES) computer hardware items purchased in fiscal year 1996-97, identified as a questioned cost, were identified, tagged, and recorded in the FIA Fixed Asset Accounting System subsequent to the audit finding.

In addition, the amount of CSES equipment booked in the general fixed assets account group has been adjusted to reflect assets with an individual value of \$5,000 or more. A review of all fixed asset acquisitions is underway to ensure that there are no additional outstanding issues or adjustments to be made.

Anticipated Completion Date: December 31, 2000

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 439904

Finding Title: Cash Management

Management Views: FIA agrees with the recommendation and has complied.

Corrective Action: In fiscal year 1999-2000, the management decision on the transfer amount from Temporary Assistance for Needy Families (TANF) to the Social Services Block

Grant (SSBG) came in December 1999. The first TANF draw for the transfer from TANF to SSBG was made in January 2000. The transfer from TANF to the Child Care and Development Fund (CCDF) for fiscal year 1999-2000 will not be completed until the last quarter of fiscal year 1999-2000 as the transfer will be a very small amount (less than one month's expenditures).

FIA has consistently improved the time lines of the management decision to transfer funds from TANF to SSBG and CCDF. As FIA has gained familiarity with the options available under TANF, the management decision has moved forward from November 1997 for the fiscal year 1996-97 grant to July 1998 for the fiscal year 1997-98 grant and to March 1999 for the fiscal year 1998-99 grant. FIA management is attempting to address the transfer issue as early in the grant year as feasible to ensure accurate reporting and better cash management.

Anticipated Completion Date: Completed
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 439905
Finding Title: Supplanting of State Funds
Management Views: FIA agrees with the recommendation and has complied.
Corrective Action: The error identified in the audit finding was because of improper coding in the accounting system. FIA made the correction on the Title IV-B, Subpart 2, report for the quarter ended September 30, 1999.

Anticipated Completion Date: Completed
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 439906
Finding Title: Client Disqualification

Management Views: FIA agrees with the recommendation and will comply.
Corrective Action: Local office directors and zone managers will share the audit finding with local office workers and program managers so deficiencies are brought to their attention and corrected.
Anticipated Completion Date: June 20, 2001
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 439907
Finding Title: Noncooperation Penalties
Management Views: FIA agrees with the recommendation and will comply.
Corrective Action: FIA policy for sanctioning noncooperative parents was established in the administrative rules which existed prior to TANF regulations. The administrative rules require that FIA disqualify the individual for four months and then close the case if the parent has not complied with child support requirements. Unfortunately, in some cases this turned out to be less than the 25% TANF requirement for four months. FIA will comply with the TANF requirement and seek changes to the boilerplate language.
Anticipated Completion Date: July 1, 2001
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 439908
Finding Title: Child Support Enforcement Efforts
Management Views: FIA agrees with the recommendation and will comply. Until recently, the "locate" functionality in CSES did not work well and was not user friendly. To access the results of those searches that were completed was labor intensive and not considered adequate by either staff or management. Either child support specialists would spend an inordinate amount of time trying to find the results that were often too old to use or they would just be unable to find the results. Because of these

problems, many child support specialists stopped using the system for locates until it was corrected.

Corrective Action:

There have been major changes to improve the CSES locate module and the functionality is now more complete and user friendly. The child support specialists have been advised that the system is producing reliable and usable results. The CSES Customer Service Team has been providing training to re-educate the specialists on how to use the Parent Locating Service and how to access the results.

The Data Warehouse has also come into existence since the end of the audit period and it is user friendly. Specialists are kept informed of changes and additions to the Data Warehouse on a routine basis. The Data Warehouse information has also become more reliable and current, which has produced another reliable locate resource. So today, child support specialists are using the Parent Locating Service.

While the entire process still needs improvements, it is far better than in previous versions of CSES. FIA will be discussing parent location with field managers and lead workers in September 2000 and then will issue new guidelines to child support specialists on program expectations. FIA will also provide training at the Michigan Family Support Council (October 2000) to give more instructions on how to use the system. FIA agrees that field staff need to be informed that most locating should be done by volume using CSES or the locating unit in Office of Child Support Central Office.

Anticipated Completion Date: September 30, 2001

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number:	439909
Finding Title:	Child Support Participation Payments
Management Views:	FIA agrees with the recommendation and has complied.
Corrective Action:	FIA claimed TANF federal dollars for child support participation in both fiscal years 1996-97 and 1997-98. FIA agrees that the expenditures in the program code for child support participation should be coded as 100% maintenance of effort (MOE). However, had these particular expenditures been appropriately claimed as 100% MOE, other MOE expenditures from the Family Independence Program (FIP) appropriation line item would have been claimed as federal spending. FIA would not have increased its overall MOE or decreased its overall federal spending had proper coding been used for this category of expenditures.
	FIA has corrected the coding for this program code and it is now MOE only. Since correcting this issue would have no effect on the federal reports or the State accounting system, FIA believes no further action is necessary.
Anticipated Completion Date:	Completed
Responsible Individual:	Cindy Osga, Audit Specialist

Finding Number:	439910
Finding Title:	Discontinuance of Adoption Subsidy Payments
Management Views:	FIA agrees with the recommendation and will comply.
Corrective Action:	The Adoption Subsidy Payroll Database is the source for the mailing labels used to send annual reports to the parents of all children covered by the Adoption Subsidy Program. This database could not accommodate addresses outside of the United States.

The Adoption Subsidy Unit has modified internal procedures for the annual report. The 1999 annual report will be sent to families currently living out of the country. Beginning with annual reports for calendar year 2000, the Adoption Subsidy Unit will have a separate mailing to out-of-country families utilizing information from the Payment Document Control Section.

The annual report process is manual and plans include the acquisition of additional automation and equipment that will allow timely logging and follow-up when reports have not been submitted.

Anticipated Completion Date: December 31, 2000
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 439911
Finding Title: Teen Parent Program Cost Allocation
Management Views: FIA agrees with the recommendation and will comply.
Corrective Action: As of January 1, 1999, the Teen Parent Program contracts began using TANF eligibility forms to distribute costs to SSBG and TANF. The Teen Parent Program contracts for fiscal year 2000-01 will use TANF Purpose 3 funds (reduce out-of-wedlock births), which have no financial eligibility requirements.

Anticipated Completion Date: March 31, 2001
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 439912
Finding Title: Documentation and Allowability of Federally Funded Expenditures
Management Views: FIA agrees with the recommendation and has complied.
Corrective Action: Advance payments utilizing the Family Preservation and Support Service funds require an approved contract and detailed budget.

Procedures have been implemented to ensure that FIA obtains appropriate documentation for CSES program expenditures incurred through the interagency agreement with DMB. Interagency billings with insufficient documentation are returned.

Adjusting entries have been processed and a decreasing claim has been reported on the Foster Care - Title IV-E expenditure report for the quarter ended June 30, 2000.

Anticipated Completion Date: Completed

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 439913

Finding Title: Federal Payroll Certifications

Management Views: FIA disagrees with the recommendation. U.S. Office of Management and Budget (OMB) Circular A-87 does not require FIA to obtain from DMB semi-annual certifications for DMB employees working solely on the Child Support Enforcement Program or solely on any other federal program. Rather, DMB is required to have a Statewide cost allocation plan for central services; this plan is to include all applicable costs charged to State agencies and to be approved by DMB's cognizant agency, the U.S. Department of Health and Human Services. This plan includes DMB's procedures for charging personnel costs to programs and projects. The plan is subject to the requirements of OMB Circular A-87. DMB is responsible for maintaining its own certifications and documentation even if another department is paying for the program or project. It is unnecessary, duplicative, and wasteful to require a second agency to gather and retain such documentation.

Corrective Action: FIA will include language in future agreements with DMB to ensure that DMB is aware of the federal requirements of OMB Circular A-87.

Anticipated Completion Date: October 1, 2001

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 439914

Finding Title: Case File Internal Control

Management Views: FIA agrees with the recommendation and will comply.

Corrective Action: Local office directors and zone managers will share the audit finding with local office workers and program managers so that deficiencies are brought to their attention and corrected.

Anticipated Completion Date: June 30, 2001

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 439915

Finding Title: Financial Penalties for Noncompliance With Federal Guidelines and Regulations

Management Views: FIA agrees with the recommendation and will comply.

Corrective Action:

- a. FIA continues to improve its Food Stamp error rate. The Office of Quality Control and Special Projects has calculated the year-to-date Statewide average error rate through May 2000 to be 12.68%, a considerable decrease from the rates cited in the audit report.
- b. FIA continues to work toward a Statewide computerized CSES. There are currently 73 counties operating on CSES. Two more counties are expected to be implemented within the next six months. This leaves only five circuit court Friend of the Court offices not operating on CSES. FIA is currently evaluating bids for completion of the system for those sites.

Anticipated Completion Date: a. FIA expects to be within the federal tolerable Food Stamp error rate by October 1, 2002.

b. The completion date depends on the time frame established in the accepted bid.

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 439916

Finding Title: Adoption Subsidy Payment System

See Finding 439902 with the findings related to the financial schedules and statements.

Finding Number: 439917

Finding Title: Screening and Monitoring of Aides and Relative Care Providers

Management Views: FIA agreed with the previously reported recommendation and has complied. However, FIA disagrees with the questioned costs and the inclusion of the finding in this report.

There is no federal requirement or State law that requires FIA to screen and monitor child care aides or relative care providers against the Central Registry. The families who were provided child care services were eligible to receive the service, and service was provided. While the Office of the Auditor General wants to ensure that children are protected, as does FIA, this is not a valid reason to question costs. OMB Circular A-133, Section 510(a)(3), requires the auditor to report in the schedule of findings and questioned costs "Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program." OMB Circular A-133, Section 510(b)(2), states that the audit finding detail shall include "the criteria or specific requirement upon which the audit finding is based,

including statutory, regulatory, or other citation." Because there is no federal or State requirement, there is no citation.

Corrective Action:

In response to the performance audit, FIA has implemented a process whereby a check is made against the Central Registry prior to the issuance of checks to child care aides and relative care providers. The result of FIA's first payroll match of payments to child care aides and relative care providers to the Central Registry demonstrated that FIA's corrective action is effective.

Anticipated Completion Date: Completed

Responsible Individual: Cindy Osga, Audit Specialist

Auditor's Epilogue:

In accordance with OMB Circular A-133, Section 105, questioned costs include a cost that is questioned by the auditor because of an audit finding which results from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds.

Enrolling applicants who are on the Central Registry is contrary to FIA's Child Care and Development Fund Plan (the State Plan). For example, Section 6.6 of the State Plan for the period October 1, 1997 through September 30, 1999 states that applicants will not be enrolled if they are on the Central Registry. We cite all payments to these ineligible providers as a questioned cost.

Finding Number:

439918

Finding Title:

Deceased Recipients

Management Views:

FIA agreed with the previously reported recommendation and will comply.

Corrective Action: FIA plans to implement a file match with the Social Security Administration (SSA) as soon as SSA is ready to provide data.

Anticipated Completion Date: December 31, 2000

Responsible Individual: Cindy Osga, Audit Specialist

Glossary of Acronyms and Terms

ARS	Automated Recoupment System.
BAFM	Administration for Budget Analysis and Financial Management.
CCDF	federal Child Care and Development Fund.
Central Registry	The automated data system maintained and used by FIA to keep a record of all reports filed with FIA pursuant to the Child Protection Law (Sections 722.621 - 722.638 of the <i>Michigan Compiled Laws</i>) in which a preponderance of relevant and accurate evidence of child abuse or neglect is found to exist.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
CFR	<i>Code of Federal Regulations.</i>
CSE	Child Support Enforcement.
CSES	Child Support Enforcement System.
Data Collection and Distribution System	A client/server system with the primary purpose of supporting the capture of time, attendance, and labor distribution data and providing extended labor distribution functionality.
DMB	Department of Management and Budget.
FFP	federal financial participation.
FIA	Family Independence Agency.

FIP	Family Independence Program.
FIS	family independence specialist.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and statements of an audited entity are fairly presented in conformity with generally accepted accounting principles.
GAAP	generally accepted accounting principles.
GASB	Governmental Accounting Standards Board.
HHS	U.S. Department of Health and Human Services.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.
JOBS	Job Opportunities and Basic Skills Training.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and if it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material weakness	A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements in

amounts that would be material in relation to the financial schedules and/or statements being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Michigan
Administrative
Information Network
(MAIN)

A fully integrated automated financial management system for the State of Michigan.

mission

The agency's main purpose or the reason the agency was established.

MOE

maintenance of effort.

OCS

Office of Child Support.

OMB

U.S. Office of Management and Budget.

OQA

Office of Quality Assurance.

Personnel-Payroll
Information System
for Michigan (PPRISM)

An online database system used for updating and inquiry of personnel and payroll records.

qualified opinion

An auditor's opinion in which the auditor identifies one or more instances of misstatements or scope limitations that impact the fair presentation of the financial schedules and/or statements in conformity with generally accepted accounting principles or an auditor's opinion in which the auditor expresses reservations about the audited agency's compliance, in all material respects, with the cited

requirements that are applicable to each major federal program.

questioned cost

A cost that is questioned by the auditor because of an audit finding:

- (1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds;
- (2) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

reportable condition

A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect FIA's or the Children's Trust Fund's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

SCAO

State Court Administrative Office.

SEFA

schedule of expenditures of federal awards.

Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of generally accepted auditing standards and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
SSBG	Social Services Block Grant.
TANF	Temporary Assistance for Needy Families.
<i>USC</i>	<i>Unites States Code.</i>
USDA	U.S. Department of Agriculture.
unqualified opinion	An auditor's opinion in which the auditor states, without reservation, that the financial schedules and statements are fairly presented in conformity with generally accepted accounting principles or an auditor's opinion in which the auditor states, without reservation, that the audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.